88-503

FILED
SEP 23 1988
JOSEPH F. SPANIOL, JR.
CLERK

No. 88-

IN THE

Supreme Court of the United States

OCTOBER TERM, 1988

LEGO SYSTEMS, INC. and INTERLEGO, A.G.,

Petitioners,

v.

TYCO INDUSTRIES, INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

ALLAN ZELNICK
Counsel of Record for Petitioners
633 Third Avenue
New York, New York 10017-6703
(212) 953-9090

RICHARD Z. LEHV
STEPHEN F. MOHR
WEISS DAWID FROSS ZELNICK
& LEHRMAN, P.C.
633 Third Avenue
New York, New York 10017-6703
(212) 953-9090

Counsel for Petitioners

90 pp

QUESTIONS PRESENTED FOR REVIEW

1. Whether in deciding if respondent should be prohibited from copying the famous Lego toy block, the appearance of which has become a trademark of petitioners, the courts below erred in failing to consider, as required by the Congressional purposes underlying the Lanham Act, the absence of any adverse effect on competition had an injunction been granted?

2. Whether the Courts below erred in failing to apply the definition of "functional" stated in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 850 n.10 (1982), and in applying instead a definition of "functional" that focuses essentially on the utility of the features copied, in that such a definition fails to properly accommodate the purposes of both the patent and trademark laws?

3. Does not the Congressional purpose of the Lanham Act, to foster product differentiation by protecting *inter alia* configuration trademarks require that to be deemed functional, such a trademark must embody features that all competitors would require in order to compete effectively?

4. Whether the courts below erred in holding that, because the Lego block configuration does not embody any features that are not useful in the Lego block, the block was "functional" and in therefore deeming irrelevant the availability of alternative ways to make commercially suitable blocks, which would indicate that the Lego configuration is "arbitrary" and competitively non-essential?

5. Did not the courts below err in finding the Lego configuration to be functional – on the basis that it is the best configuration for a block intended to work with the successful Lego blocks – when, as here, that success is not related to some superiority of that configuration or the need to use that configuration to achieve success?

TABLE OF CONTENTS

	Page
QUESTIONS PRESENTED FOR REVIEW	i
TABLE OF CONTENTS	iii
TABLE OF AUTHORITIES	v
REFERENCE TO OPINIONS BELOW IN OFFICIAL AND UNOFFICIAL REPORTS	2
JURISDICTION	2
STATUTE INVOLVED	2
STATEMENT OF THE CASE	3
A. *The Factual Background*	3
JURISDICTION BELOW	7
REASONS TO GRANT CERTIORARI	7
POINT I	
THIS COURT SHOULD RESOLVE INCREASINGLY IMPORTANT ISSUES OF FEDERAL LAW RELATING TO THE IMPACT OF THE LANHAM ACT ON THE PATENT LAWS NOT HERETOFORE CONSIDERED BY IT, ON WHICH THE CIRCUITS ARE IN CONFLICT	7
A. *The Important Issues Presented*	7
B. *The Basis of the Doctrine of Functionality*	8
C. *The Total Federal Scheme for Encouraging Competition must be the Basis of Decision*	9

Page

D. *The Congressional Purpose in The Lanham Act* 10

E. *The Correct Limitation on The Lanham Act Restrictions on Copying Configuration Marks*. 12

F. *The Third Circuit Test is Contrary to Law and in Conflict with Most Other Circuits* 14

POINT II

THIS COURT SHOULD RESOLVE THE AMBIGUITIES IN THE DEFINITION OF FUNCTIONALITY AND CLARIFY WHAT EFFECT ON COMPETITION TRIGGERS THE PRIVILEGE TO COPY 19

CONCLUSION 24

APPENDIX A-1

Opinion of the District Court (Unofficially Reported at 5 U.S.P.Q.2d 1023 (D.N.J. 1987)) . A-1

Order of the District Court A-53

Order of the Court of Appeals A-56

Order of the Court of Appeals on Rehearing ... A-57

TABLE OF AUTHORITIES

Cases	Page
American Greetings Corp. v. Dan-Dee Imports, Inc., 807 F.2d 1136 (3d Cir. 1986)	6, 17
Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979)	18
Bonito Boats Inc. v. Thunder Craft Boats Inc., 515 So.2d 220 (Fla. 1987), *cert. granted*, 108 S. Ct. 1727 (1988)	9
Brandir International, Inc. v. Cascade Pacific Lumber Co., 834 F.2d 1142 (2d Cir. 1987)	11, 12, 13, 21, 23
Brunswick Corporation v. Spinit Reel Co., 832 F.2d 513 (10th Cir. 1987)	11, 14, 23
Clamp Manufacturing Co. v. Enco Manufacturing Co., 227 U.S.P.Q. 335 (C.D. Cal. 1985)	10
Compco Corp. v. Day-Brite Lighting, 376 U.S. 234 (1964)	8, 9, 13
Continental T.V., Inc. v. GTE Sylvania, Inc., 433 U.S. 36 (1977)	22
In re DC Comics, Inc., 689 F.2d 1042 (C.C.P.A. 1982)	21
Erie Railroad Co. v. Tompkins, 304 U.S. 64 (1938)	15
Hartford House, Ltd. v. Hallmark Cards, Inc., 846 F.2d 1268 (10th Cir. 1988)	9
Ideal Toy Corp. v. Plawner Toy Mfg. Corp., 685 F.2d 78 (3d Cir. 1982)	17

	Page
Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844 (1982)	7, 10, 11, 12, 13, 17, 23
Ivan Allen Co. v. U.S., 422 U.S. 617 (1975)	16
Kellogg Co. v. National Biscuit Co., 305 U.S. 111 (1938)	8, 9, 12, 13
Keene Corp. v. Paraflex Industries, Inc., 653 F.2d 822 (3d Cir. 1981)	21
Mine Safety Appliances Co. v. Electric Storage Battery Co., 405 F.2d 901 (C.C.P.A. 1969)	10
In re Mogen David Wine Corp., 328 F.2d 925 (C.C.P.A. 1964), *later appeal*, 372 F.2d 539 (C.C.P.A. 1967)	10, 11, 21
In re Morton-Norwich Products Inc., 671 F.2d 1332 (C.C.P.A. 1982)	12, 14, 23
Park 'N Fly v. Dollar Park & Fly, Inc., 469 U.S. 189 (1985)	11
Sears, Roebuck & Co. v. Stiffel Company, 376 U.S. 225 (1964)	8, 9, 12, 13
Sicilia di R. Biebow & Co. v. Cox, 732 F.2d 417 (5th Cir. 1984)	13, 14, 20
Truck Equipment Service Co. v. Fruehauf Corp., 536 F.2d 1210 (8th Cir. 1976), *cert. denied*, 429 U.S. 861 (1976)	11, 14
United States v. Arnold, Schwinn & Co., 388 U.S. 365 (1967)	22

	Page
United States Golf Association v. St. Andrews Systems, 749 F.2d 1028 (3d Cir. 1984)	11, 15, 16, 17
W.T. Rogers Co. v. Keene, 778 F.2d 334 (7th Cir. 1985)	20-21, 23
Statutes	
15 U.S.C. § 1051 *et seq.*	7
15 U.S.C. § 1065	11
15 U.S.C. § 1091	11
15 U.S.C. § 1121	7
15 U.S.C. § 1125(a)	2, 4, 11, 12
28 U.S.C. § 1254	2
28 U.S.C. § 1291	7
28 U.S.C. § 1331	7
28 U.S.C. § 1338	7
Law Review Articles	
Handler, *Trade-marks and Anti-Trust Laws*, 38 Trademark Rep. 387 (1948)	9
Note, *Promotional Goods and the Functionality Doctrine: An Economic Model of Trademarks*, 68 Tex. L. Rev. 639 (1984)	9, 22
Note, *The Problem of Functional Features: Trade Dress Infringement Under Section 43(a) of The Lanham Act*, 82 Colum. L. Rev. 77 (1982)	11, 14, 15
Note, *Unfair Competition and the Doctrine of Functionality*, 64 Colum. L. Rev. 544 (1964)	8, 15
Congressional Reports	
H.R. Rep. No. 944, 76th Cong., 1st Sess. (1939)	15
S. Rep. No. 1333, 79th Cong., 2d Sess. (1946)	11

No. 88-

IN THE

Supreme Court of the United States

OCTOBER TERM, 1988

LEGO SYSTEMS, INC. and INTERLEGO, A.G.,

Petitioners,

v.

TYCO INDUSTRIES, INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

Petitioners, Lego Systems, Inc. and Interlego, A.G.,* respectfully pray that a writ of certiorari issue to review the judgment and opinion of the United States Court of Appeals for the Third Circuit entered in this civil action on June 2, 1988.

* Pursuant to Rule 28.1 of this Court, petitioners advise that Lego Systems, Inc. is a wholly-owned subsidiary of Kirk A.G. of Baar, Switzerland. Interlego, A.G. has no parent company but, exclusive of wholly-owned subsidiaries, is affiliated with Lego U.K. Ltd., England; Nihon Lego K.K., Japan; Lego AG, Switzerland and Lego do Amazonas Brinquedos Ltda., Brazil.

REFERENCE TO OPINIONS BELOW IN OFFICIAL AND UNOFFICIAL REPORTS.

The opinion of the district court is unofficially reported at 5 U.S.P.Q.2d 1023 (D.N.J. 1987) and appears in the Appendix at A-1. The Order entered by the District Court is unreported and appears in the Appendix at A-53. The opinion of the Court of Appeals affirming the judgment of the District Court is unreported and appears in the Appendix at A-56. The opinion of the Court of Appeals denying petitioner's petition for rehearing is unreported and appears in the Appendix at A-57.

JURISDICTION

The judgment of the United States Court of Appeals for the Third Circuit affirming the judgment of the United States District Court for the District of New Jersey was entered on June 2, 1988. The Third Circuit denied Petitioners' petition for rehearing on July 1, 1988. This petition is filed within 90 days of that date. Jurisdiction is invoked under 28 U.S.C. § 1254(1).

STATUTE INVOLVED

Section 43(a) of the Trademark Act of 1946 (Lanham Act), 60 Stat. 441 (1946) (codified at 15 U.S.C. § 1125(a)):

> False designations of origin and false descriptions forbidden.
>
> Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person

doing business in the locality falsely indicated as that of origin or the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of such false description or representation.

STATEMENT OF THE CASE

The distinctive appearance of the Lego toy construction block is so well-known that it has become a trademark of petitioners. Petitioners ("Lego") sought to enjoin Respondent, Tyco Industries, Inc. ("Tyco") from duplicating that toy. The District Court refused to do so (although it enjoined Tyco's blatantly misleading advertising) and the Court of Appeals for the Third Circuit affirmed. The courts below, applying Third Circuit law, which — unlike most other circuits — focuses on the "utility" of the features copied, found the Lego block configuration to be "wholly" functional and thus not a protectable trademark. This petition is significant in that it asks this Court to resolve a conflict in the circuits over the definition of functionality and to consider the interface of the patent law and the Trademark Act of 1946, an issue never before directly decided by this Court.

A. *The Factual Background*

Tyco's premise in copying the Lego block was that if consumers could be made to believe that Tyco's construction toy sets were "the same" as Lego's, Tyco could divert consumers who would otherwise buy Lego sets. As District Judge Brown found, "Tyco . . . decided to market a block which would fill part of the large demand for Lego sets" particularly, as opposed to the demand for block sets generally. A-5. Tyco created a toy it could advertise was "just like" Lego, but less costly. By diverting to itself the demand for Lego sets, Tyco, of course, could avoid Lego's enormous costs of creation and development of a competitively desirable product.

Thus, the visual identity of the products became the cornerstone of Tyco's marketing scheme. Tyco used this identity of appearance in several ways: by positioning its copies of Lego blocks in the

"windows" of all of its boxes so they would be readily visible to the consumer, by printing pictures of the famous Lego block – connected to a Tyco copy – on each of its boxes, and by showing a genuine Lego block and the Tyco look-alike in every ad.

Tyco's *sole* promotional theme, that Tyco is identical to Lego but less costly, was enjoined by the district court, which found it false and deceptive (A-23-32) and thus in violation of Section 43(a) of the Lanham Act. Tyco did not appeal from that injunction.[1]

The Lego block is brick-shaped. Its appearance is characterized by its concededly arbitrary dimensions, together with the size, shape and location of the means selected to effect a connection between two blocks. For this purpose the Lego block uses cylindrical knobs or studs on the top of the blocks, and these grip the walls and internal tubes of a mating block to effect a frictional connection.

Relying in part on a survey in which 44% of the respondents identified the Tyco block – even with the Tyco name on it – as made by Lego, the district court found that the appearance of the Lego block had acquired "secondary meaning", A-45-46, *i.e.*, was a trademark identifying a product made by Lego.

Tyco has never claimed, and the district court did not find, that the means used by Lego to connect blocks (studs and tubes) or the size, shape, or location of the studs and tubes used by Lego, are inherently superior to other ways of connecting blocks. Nor did the district court find that the dimensions of the Lego block are superior to those of other brands. Indeed, Tyco never even contended that the Lego block embodies any principles that are essential to making connecting toy blocks.

---

[1] Tyco was ordered to destroy its remaining deceptive advertising and packaging. On January 20, 1988 Judge Brown found Tyco in contempt of court for its failure to have done so.

Most significantly, the district court did not find that the use of any physical feature of the Lego block was in any way essential to a competitor's ability to make a competing block. On the contrary, there was substantial, unrebutted evidence that the Lego block configuration embodies serious drawbacks that significantly limit the block's usefulness. This was also evidenced by the absence of any copies of the Lego block until Tyco introduced its copy in 1984, over six years after Lego's United States patent rights (relating to the addition of tubes within the Lego block) terminated. Apparently recognizing the Lego design's drawbacks, competitors were in no rush to duplicate the Lego system when the patent barrier fell.

In addition, at trial Lego introduced evidence of over forty-five competitors' blocks, none of which copied the stud/tube method used by Lego, and all of which were visually distinct from Lego. Every conceivable method of creating a releasable connection between two blocks has been employed in blocks on the market, and none of these methods appears to be inherently inferior to Lego in its ability to achieve interlock or in its cost to manufacture. Most provide the same number of relative fixed positions between two connecting blocks as Lego, and many permit more such positions.

Tyco easily could have made a good competing block that did not duplicate the appearance of the Lego block. Mr. Martin, Tyco's vice president, and the designer of Tyco's block, conceded this at trial. Moreover, he confirmed certain of the drawbacks in the Lego design, which he said involved great difficulties for a block maker because the design is a "very close tolerance system." Yet he was instructed to copy the Lego design, drawbacks and all:

> The main exercise here is not making a block that simply fits well with itself and is a quality block. The main exercise here is making it work with Lego.
>
> * * *
>
> [B]ut you've got to make that fit with Lego. That's the whole basic problem to designing the Tyco blocks. The

> company did not ask me to make a block fit itself. The question was, make it fit with Lego. *And that's* where it becomes very, very difficult. (Emphasis added).

Tr. at 3376, 3554.

Why then did Tyco make an identical copy of the Lego block? Tyco did so because, it claims, Lego sets, developed by petitioners at huge expense, are enormously popular, for marketing reasons it wanted to make a block that both looks like and connects with Lego blocks, and the configuration that works best with Lego blocks is of course the Lego configuration itself. The courts below apparently accepted Tyco's argument. The district court found the configuration of the Lego block to be "functional" because it was the best shape to work with Lego blocks, a decision, we submit, that is fundamentally erroneous.

The district court found the Lego block to be functional notwithstanding that its features are arbitrary, that none of its features are essential to all products of its kind, that none of its features affect the cost or quality of the block in a positive way, that the Lego block was not shown to have been successful because of any physical feature embodied in its configuration and, indeed, notwithstanding the fact that its shape embodies drawbacks readily overcome in many of the more than forty-five competitive blocks in evidence. The finding of functionality was based entirely on the finding that the Lego shape is comprised solely of useful features, primarily the physical connecting means, without any "arbitrary, decorative or other non-utilitarian feature."[2] A-35.

Lego appealed from this aspect of the judgment. The Court of Appeals for the Third Circuit affirmed, without writing its

---

[2] The district court failed to make any finding on "likelihood of confusion," apparently because it had found the configuration to be unprotectable as "functional". The court found that Lego had failed to adduce "*conclusive* evidence of confusion." (Emphasis added.) A-46. This, of course is the wrong test. Lego need only have shown a *likelihood* of confusion, *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 807 F.2d 1136, 1141 (3d Cir. 1986), and did so. For example, a survey showed nearly 50% of consumers were confused by the shape of the Tyco block even with the Tyco name on it.

own opinion, "essentially for the reasons" in the District Court's opinion. A-56.

JURISDICTION BELOW

Jurisdiction of the United States District Court for the District of New Jersey was based on Section 39 of the Lanham Act, Section 1121 of Title 15 of the United States Code as well as Section 1331 of Title 28 of the United States Code, as to the Lanham Act claims and on Sections 1338(a) and (b) of Title 28 of the United States Code as to the pendent state law claims. The Court of Appeals had jurisdiction pursuant to Section 1291 of Title 28 of the United States Code.

REASONS TO GRANT CERTIORARI

POINT I

THIS COURT SHOULD RESOLVE INCREASINGLY IMPORTANT ISSUES OF FEDERAL LAW RELATING TO THE IMPACT OF THE LANHAM ACT ON THE PATENT LAWS NOT HERETOFORE CONSIDERED BY IT, ON WHICH THE CIRCUITS ARE IN CONFLICT.

A. *The Important Issues Presented*

When should courts applying Federal law hold a product configuration that has achieved trademark status to be "functional"? Resolution of this issue involves deciding when and to what extent the patent law — which permits copying of unpatented subject matter — should give way to the Trademark Act of 1946 (Lanham Act), 60 Stat. 427, (codified as amended, 15 U.S.C. § 1051 *et seq.*) — which seeks to prevent consumer confusion by promoting product differentiation. With the exception of two footnotes in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 850 n.10, 854 n.14 (1982) ("Inwood"), this Court has never before directly considered these important issues.[3]

---

[3] These issues are of enormous importance in the lower federal courts. A computer analysis of federal opinions since 1980 reveals a total of 134 *reported* decisions

(footnote continued)

Furthermore, conflict in the circuits has arisen on these issues that must be resolved by this court. The lower courts often fail outright to consider the real interests at work in such cases. In view of several recent decisions highlighting these differences – including the present case – the time is now ripe to resolve these conflicts.

B. *The Basis of the Doctrine of Functionality*

The clearest expression of the rationale for the rule that copying unpatented "functional" features of a competitor's product is permissible is found in *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111 (1938), in which this Court held that the common law could not, consistent with the patent laws, prohibit the copying of matter on which a patent had expired. Such a rule was thought to promote full and free competition, by making available to competitors advancements in "the useful arts", no longer protected by the patent laws, and which they might need to compete effectively.[4] Mr. Justice Brandeis said, "Moreover, the pillow-shape [of plaintiff's shredded wheat biscuit] *must* be used for another reason. The evidence is persuasive that this form is functional – that the cost of the biscuit would be increased and its high quality lessened if some other form were substituted for the pillow-shape." 305 U.S. at 122 [emphasis added].

In *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964) and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964) ("Sears/Compco"), this Court held that state unfair competition law may not prohibit the copying of matter unprotected by patent or copyright, but the Court did not expressly consider the effect on competition, discussed in *Kellogg, supra*; rather, in

---

which deal with the meaning of "functional" in a trademark context, and the number is increasing every year. These figures do not include unpublished opinions, cases in which the issue was raised but not dealt with in an opinion, or cases which were appealed where the appellate court rendered a written opinion on the functionality issue.

[4]*See* Note, *Unfair Competition and the Doctrine of Functionality*, 64 Colum. L. Rev. 544 (1964), for an exhaustive history of this area of the law.

holding that state laws restricting copying were pre-empted, the Court relied on the need to avoid conflict with the scheme of the patent laws.[5] Product imitation, the Court said, could not be prohibited by state law even where the "design is 'nonfunctional' and not essential to the use of . . . [the] article." 376 U.S. at 238. This is a clear suggestion that a functional feature is one that is "essential to" the use of the article; that is, one that competitors, as Justice Brandeis recognized, could not do without and still compete.

Both *Kellogg* and *Sears/Compco* thus suggest that a working definition of "functional" implicates a need of competitors to use unpatented or no-longer patented features.

C. *The Total Federal Scheme for Encouraging Competition must be the Basis of Decision*

The Lanham Act, like the Patent Act, represents a Congressional mandate which, together with the Copyright Act and the antitrust laws, establishes a broad federal scheme to regulate and encourage full, free and fair competition.[6] Since the Lanham Act is a federal statute its purposes must be considered by the courts in deciding when product imitation is to be permitted and when not. As Mr. Justice Black said in *Compco*, 376 U.S. at 238, in defining the scheme of the patent laws: "But if the design is not entitled to a design patent *or other federal statutory protection*, then it can be copied at will" [emphasis added]. The Lanham

---

[5] The importance of these issues is indicated by the fact that this court has granted certiorari and placed on its calendar for the present term a case also raising questions about the effect of the patent laws in this area, *Bonito Boats Inc. v. Thunder Craft Boats Inc.*, 515 So.2d 220 (Fla. 1987), *cert. granted*, 108 S. Ct. 1727 (1988), in which the court has agreed to hear the issue of the pre-emption of the Florida Plug Molding Statute.

[6] That the definition of functionality also implicates the copyright law is clear. *See, e.g., Hartford House, Ltd. v. Hallmark Cards, Inc.*, 846 F.2d 1268, 1274 (10th Cir. 1988). The interrelationship of trademark law with the antitrust laws is noted in Handler, *Trade-marks and Anti-Trust Laws*, 38 Trademark Rep. 387, 387-88 (1948) and these implications are discussed in Note, *Promotional Goods and the Functionality Doctrine: An Economic Model of Trademarks*, 63 Tex. L. Rev. 639, 657 n.101 (1984).

Act is a form of "other federal statutory protection." This was explained cogently by the Court of Customs and Patent Appeals in *Mine Safety Appliances Co. v. Electric Storage Battery Co.*, 405 F.2d 901, 902 n.2 (C.C.P.A. 1969):

> Patent laws function only to keep things *out* of the public domain temporarily. They have nothing to do with putting things into it. They say nothing about right to copy *or* right to use, they speak only in terms of right to *exclude*. "Public domain," moreover, is a question-begging legal concept. Whether or not things are in or out of the public domain and free or not free to be copied may depend on all sorts of legal concepts including patent law, anti-monopoly policy and statutes, the law of unfair competition, copyright law, and the law of trademarks and trademark registration. What we really do is to determine these *legal* rights; then we may express the ultimate conclusion by saying something is in the "public domain" — or not in it.

See also Clamp Manufacturing Co., v. Enco Manufacturing Co., 227 U.S.P.Q. 335, 336 (C.D. Cal. 1985) ("The existence of a patent, either in force or expired, does not foreclose the acquisition of trademark rights in matters disclosed in the patent"); *In re Mogen David Wine Corp.*, 328 F.2d 925, 930 (C.C.P.A. 1964) (after noting different purposes of the statutes: "We know of no provision of patent law, statutory or otherwise, that guarantees to anyone an absolute right to copy the subject matter of any expired patent.") The case at bar, then, gives this court the opportunity to formulate for the first time the proper definition of "functionality" in light of the overall statutory scheme of Congress for regulating competition in interstate commerce.

D. *The Congressional Purpose in the Lanham Act*

Congress enacted the Lanham Act for the dual purpose of protecting the public from confusion and encouraging investment in goodwill symbolized by a mark, which in turn would result in the development of new and better products. *Inwood*

Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844, 854 n.14 (1982).[7]

In protecting as trademarks all manner of devices and features that the public associates with a particular source, Congress attempted to promote product differentiation as a desirable competitive device. *See* S. Rep. No. 1333, 79th Cong., 2d Sess. 3-4 (1946).

To this end, the statute provided in Section 23 (15 U.S.C. § 1091) for the registration as trademarks on the Supplemental Register of, *inter alia*, any "configuration of goods" capable of acquiring distinctiveness (secondary meaning). Such a trademark, after acquiring secondary meaning, is registrable on the Principal Register. *In re Mogen David Wine Corp.*, 372 F.2d 539 (C.C.P.A. 1967). Such a mark is then capable of becoming "incontestible" within the meaning of section 15 of the Act (15 U.S.C. § 1065); *i.e*, the registration is then conclusive evidence of the registrant's exclusive right to use that configuration. *Park 'N Fly v. Dollar Park & Fly, Inc.*, 469 U.S. 189 (1985).

Congress also provided for protection of *unregistered* configuration trademarks under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). The courts have uniformly held that Section 43(a) prohibits the copying of an unregistered trademark, including a configuration mark, because such copying amounts to the use of a "false designation of origin." *Truck Equipment Service Co. v. Fruehauf Corp.*, 536 F.2d 1210, 1216 (8th Cir. 1976), *cert. denied*, 429 U.S. 861 (1976); *United States Golf Association v. St. Andrews Systems*, 749 F.2d 1028 (3d Cir. 1984); *Brunswick Corporation v. Spinit Reel Co.*, 832 F.2d 513 (10th Cir. 1987); *Brandir*

---

[7] *See* Note, *The Problem of Functional Features: Trade Dress Infringement Under Section 43(a) of the Lanham Act*, 82 Colum. L. Rev. 77, 78-79 (1982).

[8] Another salient purpose was to protect the investment of creators from predatory conduct. "[W]here the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats". S. Rep. No. 1333, 79th Cong., 2d Sess. 3 (1946).

International, Inc. v. Cascade Pacific Lumber Co., 834 F.2d 1142, 1148 (2d Cir. 1987). Nowhere does the Lanham Act limit the kinds of product configurations or features that are eligible for trademark protection. The Congressional purpose was to prohibit the simulation of configurations that had become trademarks identifying their producer or source of origin whenever confusion was likely to result.[9]

The courts, however, following case law developed before the enactment of the Lanham Act, have placed a judicial gloss on protection of configuration trademarks by limiting protection to those that are "non-functional." *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332 (C.C.P.A. 1982) (restricting the right to register functional configurations); *Brandir, supra* (holding that protection under 43(a) is similarly so restricted). This Court, in dicta in *Inwood, supra*, 456 U.S. at 850 n.10, without so stating, appears to have adopted this limitation on Section 43(a) rights, by enunciating the following definition of functionality (citing *Sears* and *Kellogg, supra*):

> In general terms, a product feature is functional if it is essential to the use or purpose of the article or if it affects the cost or quality of the article.

E. *The Correct Limitation on the Lanham Act Restrictions on Copying Configuration Marks*

Assuming that some limit must be placed on the right to prevent copying of configuration marks (beyond the need to show that the public is likely to be confused thereby) the only rational basis for such a limitation is a perceived need to preserve to competitors the use of features that embody some "advance" or benefit

---

[9] Mr. Justice Brandeis in *Kellogg, supra*, 305 U.S. at 122, apparently anticipated this development where he noted that trademark rights might limit the common law rule, stating that "[s]haring the goodwill of an article unprotected by patent *or trademark* is the exercise of a right possessed by all - and in the free exercise of which the consuming public is deeply interested" [emphasis added].

that all competitors need if they are not to be unduly hindered in competition: that is, features that are essential to all such products if they are to be competitive, or that give a price or quality advantage.

The *Inwood* definition is consistent with *Sears/Compco* and *Kellogg* and all ultimately turn on the effect that protecting the configuration would have on competitors. They harmonize the Congressional purpose behind the patent law with that behind the Trademark Act. Thus, the balance struck by this formulation is that copying is prohibited when the prohibition is competitively substantially inconsequential and confusion is thereby avoided; but copying is permitted when there is a significant *need* to use the copied features to make a competitive product, even if some confusion might result.

In perhaps the most closely-reasoned of all recent functionality cases, *Sicilia di R. Biebow & Co. v. Cox*, 732 F.2d 417, 429-30 (5th Cir. 1984), the Fifth Circuit concluded in discussing the need to bring the case law into compliance with the intent of Congress, "[w]e think that too broad a view of functionality disserves the Lanham Act's purpose of protecting product distinguishability . . . . By restricting the doctrine of functionality, we preserve the ability of producers freely to select distinguishing designs and identifying marks. By linking functionality to a finding of competitive effect, however, we continue to promote free competition."

With the notable exception of the Third Circuit, most circuits that have recently considered the issue have followed this Court, and, like the Fifth Circuit, have "link[ed] functionality to a finding of competitive effect." For example, *Brandir International, Inc. v. Cascade Pacific Lumber Co.*, 834 F.2d 1142 (2d Cir. 1987), involved a bicycle rack in which (like the Lego block), form and function were inextricably intertwined. The issue, the Second Circuit there held, however, was the effect of an injunction on competition, *not* the form or function of the rack. The rack was held capable of being a protectible mark notwithstanding that "the design feature of the Ribbon Racks is clearly dictated by the function to be performed, namely, holding up bicycles." 834 F.2d at 1148.

Similarly, the Tenth Circuit in *Brunswick Corp. v. Spinit Reel Co.*, 832 F.2d 513 (10th Cir. 1987), rejected the notion that "utility" is the measure of functionality. It held that the test is whether preventing copying will significantly impede competitors. One test, the availability of a number of equally good alternative configurations, the court said, indicates the arbitrariness of the plaintiff's design, and thus shows that protecting it would not materially affect competition.

The Eighth Circuit also adopted this test in *Truck Equipment Service Co. v. Fruehauf Corp.*, 536 F.2d 1210, 1218 (8th Cir. 1976), *cert. denied*, 429 U.S. 861 (1976) where the court held that "the question in each case is whether protection against imitation will hinder the competitor in competition." The court rejected the test used by the district court and the circuit court in the instant case; namely, whether the features copied have a function other than as a trademark.

Finally, the Court of Appeals for the Federal Circuit has adopted the same rule in *In Re Morton-Norwich Products, Inc.*, 671 F.2d 1332 (C.C.P.A. 1982); the need to use the design to compete effectively is the test, it said, and "need" is to be measured in terms of available alternatives. That the configuration was designed with "an eye toward the utility of the *article*" is by no means conclusive of the issue of functionality, the court held. 671 F.2d at 1343.

F. *The Third Circuit Test is Contrary to Law and In Conflict With Most Other Circuits*

There is, however, a conflict in the circuits. As the Fifth Circuit in *Sicilia di R. Biebow, supra*, noted, the circuits "have provided differing definitions of functionality that have resulted in non-uniform application of the doctrine."[10] 732 F.2d at 432.

---

[10] "Courts have applied the common law doctrine of functionality with widely varying definitions and procedural rules, leading to inconsistent results." Note, *The Problem of Functional Features: Trade Dress Infringement Under Section 43(a) of the Lanham Act*, 82 Colum. L. Rev. 77, 86 (1982). The author of this

(footnote continued)

The Third Circuit, in direct conflict with the Second, Fifth, Eighth, and Federal circuits, adheres to a test directed to the utility of the features, one that balances the origin-indicating value of the features copied against their utility in the original product. "[T]he essence of the question is whether a particular feature of a product or service is substantially related to its value *as a product or service, i.e.*, if the feature is part of the 'function' served, or whether the primary value of a particular feature is the identification of the provider." *United States Golf Association v. St. Andrews Systems*, 749 F.2d 1028, 1033 (3d Cir. 1984) ("*USGA*") [emphasis in original]. This elliptical language not only totally ignores the "essential to" and the "effect on competition" tests, but also invites a decision, such as that appealed from, that *any* feature central to the way the original product works and adopted to achieve a utilitarian purpose is inevitably "functional," even if preventing copying would have absolutely no effect on competition and even if its use is not essential in such a product.

The opinion below never mentioned the effect on competitors of precluding Tyco from copying the Lego block. Notwithstanding the drawbacks in the Lego block and the expense and difficulty of making it, as compared to other configurations, the courts below held the Lego block to be functional because it was in its entirety utilitarian.

---

note also concluded, *id.* at 90, "[t]hus the inconsistency of definitions used exacerbates the problems of inconsistent application, in contravention of the statute's [Lanham Act's] policy of uniformly administered, comprehensive national legislation." The author additionally points out, *id.* at 86, that this confusion exists thirty-six years after the enactment of the Lanham Act whose very purpose it was "to ensure consistent and uniform legal rights and remedies in a no-longer localized economy." (*Citing* H.R. Rep. No. 944, 76th Cong., 1st Sess. 4 (1939) in which the House Committee on Patents stressed the need for a *uniform* federal law in the wake of *Erie Railroad Co. v. Tompkins*, 304 U.S. 64 (1938)).

"Courts have reached contrary conclusions on virtually every relevant proposition. Thus, while some courts have equated functionality with commercial necessity and deemed the availability of substitutes determinative, others have adopted the considerably broader Restatement [utility] test." Note, *Unfair Competition and the Doctrine of Functionality*, 64 Colum. L. Rev. 544, 568 (1964) [citations omitted].

The opinion adopted by the Court of Appeals[11] held the Lego configuration to be "wholly" functional because the "stud and tube system . . . contribute[s] to the effectiveness and performance of the blocks," A-35, presumably the Lego blocks. No analysis of that effectiveness vis-a-vis other equally good or better means was attempted by the courts. The courts also found the availability of equally good or better shapes, as established by Lego's witness, to be of *little legal relevance*, because the shape of the Lego block "does not comprise or incorporate any arbitrary, decorative or other non-utilitarian feature[s]." A-35. Ignoring *Inwood*, the courts below made no finding that the features were "essential to" such blocks.

The district court also went on to rule that "without incorporating at least some substantial non-functional elements, the Lego 2x4 block cannot seek the protection of trademark law." A-36. Thus, the court engaged in circular reasoning — it defined "functional" in terms of the absence of "non-functional" features, without, of course, defining the term "non-functional." The court also found that since all aspects of the Lego block play a useful role in the block and no features other than useful features exist, the configuration is functional as a matter of law since its features "do serve a purpose other than identification." A-36. These statements appear to represent factors to be considered in the "weighing the value" test now prevailing in the Third Circuit. *See U.S.G.A., supra.*

Finally, the courts below held that the Lego block shape has a "significant relation to the utilitarian function of the product." A-34. Although it does not describe that relationship or define the "product," the district court opinion clearly refers to the Lego block, not blocks generally. In short, the Third Circuit has adopted a rule that ignores competitive effect, and holds that a product configuration is legally functional where its features

---

[11] *Ivan Allen Co. v. U.S.*, 422 U.S. 617, 623-24 (1975) (certiorari granted in light of conflict of law in principle with District Court decision summarily affirmed by the Court of Appeals.)

are (a) utilitarian in the sense that they play a role in the use of the product in which they appear and (b) do not serve the sole purpose of identification.[12] The Third Circuit rule is out of step with this Court's decisions, the Congressional purpose behind the Lanham Act, and the holdings in other circuits, and has resulted in a gross miscarriage of justice in this case.

The correct rule must, at a minimum, be that where the choice of design or appearance is essentially arbitrary (in that there are other equally good or better ways to design a competitive product) the appearance of the original is not legally functional and its copying is not thereby privileged. *See, e.g., Ideal Toy Corp. v. Plawner Toy Mfg. Corp.*, 685 F.2d 78 (3d Cir. 1982). This formulation, not followed below, reconciles the purposes of the patent laws and the Lanham Act.

In respondent's reply, it will no doubt point to that portion of the opinion below, entitled *Alternative Configuration*, A-36 *et seq.*, which indicates that certain of the alternatives proposed by Lego were inferior in respect of cost or quality to the connecting means found in the Lego block. Unfortunately, the opinion fails to identify with clarity the blocks to which this holding refers. A close examination of the record, however, will reveal that these findings related solely to configurations suggested by Lego as alternative means to connect another block to a Lego block. Nowhere does the District Court find that the Lego means of connection is generally superior to most or even many other possible configurations for such blocks. The District Court failed to distinguish between the forty-five or so competitive blocks introduced into evidence using completely different connecting

---

[12] Although the Third Circuit did, in *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 807 F.2d 1136, 1142 (3d Cir. 1986) note that the courts may also consider whether preventing product imitation will deprive competitors of something that will substantially hinder them in competition, that clearly is a secondary consideration in applying the *U.S.G.A.* test. The Third Circuit test is predicated on the freedom of all to use features "that have a significant relation to the utilitarian function of the product" and, in this most recent statement of its rule, that Court again rejects the "competitively essential test" of the other circuits, and perhaps of *Inwood*. 807 F.2d at 1142.

means – all of which worked as well as or better than the Lego connecting means – and certain "sketches" (showing third party and experimental blocks) introduced *only* to show that visually distinguishing features could be used in a block that would still connect with Lego blocks. That the District Court's discussion of alternative configurations was limited to blocks that connect to Lego – as opposed to methods to connect blocks in general – becomes crystal clear from an examination of the record and will be amply demonstrated in the briefs on the merits.

Nowhere does the opinion discuss the need of block makers generally to use the Lego studs and tubes. Moreover, even accepting the superiority of studs and tubes (as Tyco will no doubt argue), nowhere does the District Court make any finding that studs and tubes need to be of the size, dimensions, and location of those used by Lego. That is, even if the Court was making a holding of general technical superiority, *critically* it failed completely to hold that the need to use those technical features necessitated *copying the appearance* of the Lego block, and it could not have made such a finding on this record.

The record amply demonstrates that Tyco copied the Lego block not because its system was superior to other competitor's systems, but because it was Lego's system. Tyco's designer repeatedly testified that he didn't care what the Lego system was. His orders were to make a block that looked like Lego *and* fit Lego, and he did so. Tyco's argument, if accepted, at the very best would be nothing more than a reason to remand the case for unambiguous findings on these issues after reversing on the law.

The patent law fosters invention by rewarding inventors, promotes disclosure of inventions to stimulate further innovation, permits the public to practice the invention once a patent expires, and assures that ideas in the public domain remain free for use by the public. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979). Prohibiting copying of configuration trademarks only when the feature copied embodies some advancement that all competitors need fosters those very same goals.

While the rule proposed might limit the right to copy some ideas in the public domain, by definition those are not competitively relevant, and thus the patent law need give way only minimally to accommodate the purposes of the Lanham Act.

POINT II

THIS COURT SHOULD RESOLVE THE AMBIGUITIES IN THE DEFINITION OF FUNCTIONALITY AND CLARIFY WHAT EFFECT ON COMPETITION TRIGGERS THE PRIVILEGE TO COPY

Not only is there a conflict in the circuits as to the basic test of functionality to be applied, but also there has been a welter of conflicting decisions on the correct application of the test. These issues must also be clarified, and direction provided to the lower courts. For example, Tyco here has urged that it would be more successful if it could make a block that interlocks with, and looks just like, Lego's block — not because Lego blocks embody a superior design, but because there is a large demand for Lego sets and there are already so many Lego sets in millions of households around the country. But if Lego's success creates a demand for Lego sets that all competitors can fill by copying the successful product, the law of functionality becomes an open door to trademark infringement. Every successful product, even if it embodies design drawbacks, would be "functional" and could be copied at will.

Lego has built a large following at enormous expense and through the exercise of creative talent — not because of some advance in structure or design — but despite its design's drawbacks. The holding below that the market for "Lego" blocks can best be filled by competitors if they can make Lego blocks is a perversion of the doctrine of functionality and an unwarranted extension of the patent concept.[13] It is nothing less than

[13] The district court made no finding that consumers actually buy Tyco sets because they fit with Lego blocks and the evidence was to the contrary.

an attack on marketing success. Only with difficulty can one imagine a doctrine better calculated to discourage creativity and entrepreneurship.

The Courts that have considered this proposition for the most part reject it. The Fifth Circuit said in *Sicilia di R. Biebow, supra*, 732 F.2d at 428, that "[w]e particularly reject the suggestion that the doctrine of functionality insulates a second comer from liability for copying the first comer's design whenever the second comer can merely cite marketing reasons to justify the copying." The court went on to say:

> To define functionality in terms of commercial success or marketing effectiveness as [defendant] suggests, would permit a second comer to copy the distinctive dress of a product whenever it became successful and consumers became accustomed to its dress. . . . We do not doubt that such copying would enable the second comer to market his product more effectively, but the Lanham Act does not permit that result.

Id. [citations omitted].

In *W.T. Rogers Co. v. Keene*, 778 F.2d 334 (7th Cir. 1985), the court, considering whether plaintiff's design was functional, defined a functional feature as something that is "intrinsic to the entire product consisting of this manufacturer's brand and his rival's brands. . . ." 778 F.2d at 339. The court held that a feature is functional only if "it would be found in all or most brands of the product even if no producer had any desire to have his brand mistaken for that of another producer." 778 F.2d at 339. The court rejected an argument similar to Tyco's, saying:

> "[I]t is not enough that a person who owns two items with that feature wants a matched pair. Otherwise we might be forced to admit that General Motors can duplicate the Rolls Royce, because a person who had

> one Rolls Royce might think a second would look good next to it in his garage."

778 F.2d at 344.

As the Second Circuit held in *Brandir Int'l., Inc., supra*, 834 F.2d at 1148:

> This issue of functionality on remand should be viewed in terms of bicycle racks generally and not one-piece undulating bicycle racks specifically.

(citing In re DC Comics, Inc., 689 F.2d 1042, 1045 (C.C.P.A. 1982)) (dolls generally and not Superman dolls are the class by which functionality is determined).

It is, of course, true that if Tyco can make exact copies of the Lego block it can offer the public an alternative source of "Lego" blocks and that some benefit to the public might accrue by reason of what becomes in effect, *intra*brand competition. But if not permitted to copy the Lego block, Tyco and others must develop blocks of their own (which may fit Lego if perhaps less perfectly than Lego fits itself), giving the public the benefit of a wider range of different kinds of blocks, and intensifying *inter*brand competition. The "competition" that should be fostered by a proper definition of functionality is, we submit, interbrand competition, as Congress clearly intended in enacting the Lanham Act.

Differentiation of products by the trademark system, which fosters interbrand competition by encouraging innovation, creativity, and investment – while preventing consumer confusion – is the congressionally preferred route to free and full competition. At the same time, Congress has recognized that permitting copying discourages the creative spark. As Judge Rich foresaw, concurring in *In re Mogen David Wine Corp.*, 328 F.2d 925, 933 (C.C.P.A. 1964), competitors would create other, perhaps more artistic, designs if compelled not to copy existing designs. *Compare Keene Corp. v. Paraflex Industries, Inc.*, 653 F.2d 822, 825 (3d Cir. 1981) (a strict rule of functionality may stifle creativity.) Moreover, since the district court found that the Lego block

design is a trademark of Lego, allowing Tyco to sell its copy is to permit Tyco to, in effect, sell "Lego" blocks, the equivalent of allowing General Motors to duplicate the Rolls Royce. Such sales by Tyco and presumably others would render that design non-distinctive, and destroy its value as a trademark, completely frustrating the purpose of Congress underlying the trademark laws.

In the context of antitrust law,[14] this Court, in *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36 (1977), focused on the distinction between interbrand and intrabrand competition. The Court, reversing its prior holding in *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967), refused to apply a *per se* rule to invalidate restrictions on intrabrand competition that might in fact enhance interbrand competition, which this Court held to be "the primary concern of antitrust law." 433 U.S. at 51 n.19.

As noted above, the trademark laws are part of the same Congressional scheme of regulation of competition as are the patent and antitrust laws, and reflect the Congressional purpose of encouraging product differentiation and competition *among* brands. Interbrand competition is likewise the primary concern of the trademark law and, manifestly, the purposes of the Lanham Act are congruent with this Court's holding in *GTE Sylvania*. The Court there noted that while vertical restrictions on distributors "reduce intrabrand competition by limiting the number of sellers of a particular product competing for the business of a given group of buyers," such restrictions also help manufacturers to compete more effectively against other manufacturers. 433 U.S. at 54. The preference of Congress expressed in the Lanham Act for promoting interbrand competition is a rational choice between two competing results. That this Court preferred the same choice in the antitrust context establishes the correct parameters for the definition of functionality as it affects the competitive scheme.

---

[14] As to the relationship of the purpose of the antitrust laws and the Lanham Act, to foster competition, see Note, *Promotional Goods and the Functionality Doctrine: An Economic Model of Trademarks*, 63 Tex. L. Rev. 639, 657 n.101.

The focal point of the inquiry in *W.T. Rogers v. Keene*, *Brandir International*, *Brunswick v. Spinit Reel*, and *In re Morton-Norwich*, previously cited, is the effect on *interbrand* competition of the withholding of a configuration trademark from competitors. For this reason, the cases have focused on whether the features claimed to be functional are inherent in the entire line of similar products consisting not only of the brand of the trademark owner but also of all competitive brands. It appears that the courts below, however, focused on intrabrand (Lego's Lego vs. Tyco's Lego) competition and were thus led astray.

This court should also clarify the *Inwood* test to the extent of making clear that features that affect the cost or quality of the product *in a negative way* are relevant to the inquiry only in that they are evidence of non-functionality. After all, the inability to use features that *increase* costs or *reduce* quality would not inhibit competitors. In the case at bar the use of Lego's studs and tubes produced greater, not lesser, costs of production and tool making, and there are drawbacks in the Lego design that competitors could do without.

Here, there is no need to permit copying of drawbacks in the Lego design (which Lego itself has not changed because the design has come to serve as its trademark). Allowing such copying would not only foster consumer confusion, but also would fail to encourage the development of improvements in products. This is hardly the result Congress intended in adopting either the patent law or the Lanham Act.

CONCLUSION

The law in most circuits, but not the Third, has gone past the day when copying for the sake of taking a free ride on the plaintiff's hard-earned goodwill was permitted, if confusion is the likely result. Therefore, this Court should grant this petition for a Writ of Certiorari and set this case down for briefing and argument on the merits leading to a resolution of the conflict in the circuits, clarification of this enormously important area of the law, and reversal of the decision below.

Respectfully submitted,

ALLAN ZELNICK*
RICHARD Z. LEHV
STEPHEN F. MOHR
WEISS DAWID FROSS ZELNICK
& LEHRMAN, P.C.
633 Third Avenue
New York, NY 10017-6703
(212) 953-9090

* Counsel of Record

Dated: September 23, 1988

APPENDIX

OPINION OF THE DISTRICT COURT

NOT FOR PUBLICATION

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

TYCO INDUSTRIES, INC., Plaintiff,	)	Civil No. 84-3201 (GEB)
vs.	)	OPINION
LEGO SYSTEMS, INC. and INTERLEGO, A.G., Defendants.	)	
		Filed and Entered August 26, 1987

BROWN, District Judge

I. *INTRODUCTION*

This is a declaratory judgment action brought by the plaintiff, Tyco Industries, Inc. ("Tyco"), pursuant to Section 2201 of Title 28, United States Code, relating to trademark infringement and unfair competition against defendants, Lego Systems, Inc. and Interlego, A.G. (collectively "Lego"). Defendants have counterclaimed for trademark infringement under Section 32(1)

of the Lanham Act and for unfair competition under Section 43(a) of the Lanham Act, Title 15, United States Code Sections 1114(1) and 1125(a), respectively, and for unfair competition under the common law of New Jersey.

After 14 days of trial, the case was bifurcated. The plaintiff's claims for a declaratory judgment and the defendant's counterclaims concerning false descriptions or representations under §43(a) of the Lanham Act[1] proceeded first, and plaintiff's claims and defendant's counterclaims concerning common law trademark, the likelihood of confusion, common law unfair competition and misuse of the trademark "Lego" were tried subsequently. This opinion constitutes the Court's Findings of Fact and Conclusions of Law as required under Fed.R.Civ.P. 52(a). This opinion is also bifurcated, in accord with the presentation of evidence at trial. However, in order to avoid undue repetition, findings or conclusions reached as to one part of the trial have not necessarily been repeated in the discussion as to the other part.

Although to some extent I have drawn language from the proposed findings, conclusions or other submissions of counsel, these findings and conclusions are my own. Because of the enormous volume of evidence in this case, I am precluded from discussing individually each piece of evidence within this opinion.

---

[1] Section 43(a) of the Lanham Act 15 U.S.C. §1125(a) provides:

> (a) Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any false description or representation.

However, after careful review of the record I have reached the following findings and conclusions.

II. *BACKGROUND*

The Plaintiff, Tyco, is a Delaware Corporation with its principal place of business in Moorestown, New Jersey. For over 50 years, Tyco has been a manufacturer and distributor of toys in the United States. The defendant Interlego, A.G. is a Swiss corporation located in Zug, Switzerland. For purposes of this trial only, Interlego speaks for a group of related Interlego companies in Denmark and Switzerland which perform various functions in connection with Lego Products. The defendant Lego Systems, Inc., is a Connecticut corporation wholly owned by Interlego, A.G. with its principal place of business in Enfield, Connecticut.

Lego products consist primarily of plastic building blocks and elements developed for children. Lego began selling its Lego-brand block sets in the United States in 1961. The basic Lego building block, also referred to as a brick, is approximately 9.5 mm. high, by 15.5 mm. wide, by 32 mm. long. The underside of the block has three tubes. The blocks interlock with one another. As one block is placed on another, the knobs or studs on the top of one block fit in the spaces between the outer edge of the tubes and the interwall of the other block.

The gripping force that holds the blocks together is called "clutch power". Lego blocks are designed so that once a structure is built with the blocks, the clutch power will hold it together under normal conditions, but the clutch power is also low enough that a child can disassemble the blocks using normal force.

Since the pieces in all Lego sets are intended to work with each other, Lego has adopted a clutch power for its blocks which is uniform over the entire range of the Lego line, but is most appropriate for children ages five to nine. The clutch power selection by Lego is sometimes too tight for children younger than six or too loose for older children who build more complex structures.

Lego makes blocks with a wide variety of patterns of studs on top. These are referred to by the number of rows and the number of studs on each row. For example, a "2×2" has two rows of two studs each, and a "1×3" has one row of three studs. The basic Lego block is called a "2×4" because it has two rows of four studs each.

In addition to the brick shape blocks, Lego makes other pieces, known as elements, which are non-block pieces. Lego makes approximately 470 elements, including windows, doors, windshields, wheels and axles, propellers, wind-ups, electric motors, cranes, pneumatic pumps, rooftops, miniature human figures, lighted blocks, and base plates.

Since 1959, Lego has sold a pre-school size block in the United States, at first under the trademark "Lego Pre-School," and since 1977, under the trademark "DUPLO." The basic Lego and DUPLO blocks use the same system of interlocking and are of the same general overall configuration as the Lego blocks. The DUPLO block was designed so that all Lego blocks which have two or more studs in each direction may be mounted on top of a DUPLO block. To accommodate this direct connection, studs on the DUPLO block are cored out to receive the internal tubes of the Lego blocks.

Lego sets are age graded. The DUPLO blocks are suitable for children below four years of age, and are sold in sets designed for children from ages 18 months to about three years. Sets of standard sized blocks are designed to be suitable for various ages from three and up.

Lego size sets for ages three and up (Lego 3+ sets) are the natural progression from DUPLO and are made up of blocks and elements. All of the blocks in 3+ sets have at least two rows of at least two studs each so that they may be connected directly to DUPLO blocks and so that they are large enough to be easily disconnected by three and four year olds. The direct attachment of Lego to DUPLO has been widely promoted by Lego on shelf strips which are attached to retail store shelves, in point-of-sale brochures, and in Lego print ads, generally accompanied by the phrase "Lego bricks work together with DUPLO blocks."

Lego 5+ and 7+ sets generally contain a wider variety of sizes and shapes of pieces than the Lego 3+ sets. This is particularly true of the larger, more expensive sets. Most of these sets include 1/3 height blocks and pieces, blocks having one stud in one or both directions, and a variety of other complex elements. These smaller pieces lend greater realism to models and permit greater detail.

From about 1973 to the present, Lego and DUPLO brand building toys have held a commanding lead in the sales of plastic block construction toys, and the sales in the United States are believed to have equalled or exceeded the sales of all other brands of plastic building block toys combined. From 1977 to 1983, surveys conducted by Lego indicated that approximately 40 percent of all families in the United States with children 14 years of age or younger owned Lego products. At all relevant times, Lego has been and remains by far the most widely known and largest selling brand of interlocking plastic toy blocks in the United States.

In 1983, Tyco decided to market a toy construction block in both standard and pre-school sizes. Tyco began to offer and sell its blocks to the trade in early 1984 under the trademark TYCO SUPER BLOCKS (in standard size) and TYCO PRE SCHOOL SUPER BLOCKS (in pre-school size). Tyco was aware that Lego dominated the market for such toys, and decided to market a block which would fill part of the large demand for Lego sets. It is not disputed that Tyco has the right to manufacture and sell a high quality block that works together with Lego blocks.

Tyco copied the physical appearance of six basic Lego blocks almost exactly, except that Tyco deliberately altered the "feel" of Tyco blocks by slightly reducing the dimension of the tubes and studs so as to make the Tyco blocks feel looser and to make them more easily detachable.[2] No Tyco set is identical in piece

[2] Another difference is that Lego places its name inside each of the studs; Tyco places its name on the plate between the studs.

makeup to any Lego set. Except for the basic blocks, Tyco pieces are not copied from similar Lego pieces. All Lego sets contain pieces not found in Tyco sets, and no two Lego and Tyco sets are the same in piece type or array.

Tyco's pre-school blocks also differ from DUPLO blocks. The studs of the Tyco pre-school blocks are not cored out as are the DUPLO studs. Since the Tyco pre-school studs are not cored out, standard Tyco (and Lego) blocks cannot be mounted on a Tyco pre-school block. Tyco has a 2x4 grey adapter block which fits on the Tyco pre-school block to connect it with a standard block. The block is available only in Tyco standard size sets (except in set numbers 5205 and 5207). No Lego block fits directly on Tyco's pre-school size blocks.

III. PART ONE: THE FALSE ADVERTISING CLAIMS

In its complaint, Tyco sought entry of judgment declaring that the value comparisons used on its packaging and promotional materials did not infringe on Lego's statutory or common law rights. Lego counterclaimed pursuant to §43(a) of the Lanham Act seeking to enjoin advertising and certain statements on Tyco packaging on the grounds that the statements are literally false and/or tend to deceive consumers. Neither party claims damages.

A. *Tyco's Advertising: The "Toy Box" Concept*

Lego's challenges are directed at claims made by Tyco: 1) that Tyco "looks and feels like Lego", 2) that "you can't tell the difference" between Tyco and Lego so that "your child can keep right on building with either one"; 3) that one can "build a bigger" structure with Tyco than Lego for the same money; 4) that Tyco's standard and pre-school sizes connect to each other, and 5) that Tyco sets are less expensive than "comparable" or "comparably priced" Lego sets.

In 1985, Tyco advertised its TYCO SUPER BLOCKS to the consuming public in variations of one print ad and one television commercial. In addition, in 1985, Tyco advertised its "outer space" theme sets in one print ad. Tyco's marketing plan was intended to convince the trade and the public that Tyco's new

product looked like, felt like, was of the same quality as Lego, and that the only difference was that Tyco was much less expensive. As Mr. Grey, Tyco's President, testified, "The ad says buy Tyco instead of Lego because you get better value. It's the same merchandise or substantially the same, it looks the same, it feels the same, it works together. . . ." As Tyco's counsel stated in his opening remarks, Tyco's ads make the claim one can get the same bricks for less money. Tyco claims it never intended, however, to make "sets" of blocks and elements that were in any sense the same as Lego sets.

In his testimony, Mr. Grey described what was referred to throughout the trial by Tyco as "the toy box" concept. Tyco's theory is that Tyco and Lego sets are substantially the same and can be mixed up in the same toy box and the pieces can be used interchangeably. Thus, when the child reaches in the toy box for a piece to build with, it doesn't matter whether the piece is a Tyco or a Lego piece. As Mr. Grey testified on direct examination:

> Literally, what it means is that a child could reach into a box, toy box, bucket container of some kind, pull out a block and not care whether it's a Tyco block or a Lego block. That is fully compatible.

However, Mr. Grey also testified that it was never Tyco's intention to duplicate the entire line of Lego pieces or sets:

> It was never our intention to produce at any time every element and shape that Lego had. There were certain basic shapes and sizes and elements that should be identical or very, very similar, and beyond that, we planned and in fact have gone our own way and developed other blocks, other shapes that we felt were suited or more suited to the kinds of projects that we felt American kids would be happy with.

The "toy box" concept was conveyed on the 1984 print media "Butterfly" ad[3] and the basic 1985 print ad, as well as on the

---

[3] The "butterfly" ad was a print ad which showed a butterfly constructed out of both Lego and Tyco blocks. In large letters on either side of the butterfly

(footnote continued)

bullet and the legends on Tyco's packaging.[4] (Tr. 253). Tyco felt that for the "toy box" concept to be accepted, the pieces which were the same had to look the same (Tr. 144, 229-31), and a difference in the appearance of similar Tyco and Lego blocks would be unacceptable to the consumer. (Tr. 255-56). However, while only some of the pieces were intended to be "identical", this fact was not and is not disclosed in Tyco's advertising and packaging.

The "toy box" concept also included the fit, since a child, Mr. Grey testified, might care if Tyco and Lego fit differently (Tr. 273). Indeed, Mr. Grey admitted that Tyco pre-school was offered as compatible with DUPLO in the "toy box" sense, as emphasized in Tyco's ads and packaging (Tr. 263 and 280-81), and acknowledge that it "is not unlikely that the mother who has the Tyco pre-school and the DUPLO in the toy box would be of the belief that after reading the [package insert] she would not be able to tell the difference between the products." (Tr. 284-85). However, the Tyco Pre-School block is in fact different from the DUPLO block and the two are not interchangeable if the child is using the blocks with either party's regular-size sets.

B. *The Lego Survey Evidence*

A survey was conducted for Lego by A. Spencer Bruno, President of Bruno & Ridgway Research Associates, Inc., of Princeton, New Jersey. The purpose of the survey was to determine what message consumers received from the Tyco 1985 print ad, referred to in this action as "Boxes and Containers", to determine whether the "bullet" on the Tyco package conveys the message that Tyco standard size blocks connect directly to Tyco pre-school blocks, and to determine the significance to consumers of the undisclosed fact that an adapter piece is needed to use the two sizes of Tyco together.

---

appear the words: "Which part is Tyco? Which part is Lego? If you can't tell the difference, why pay more?" The ad goes on to include *inter alia* the statements, "Tyco looks like and feels like Lego" and "Tyco works with Lego."

[4] The "bullet" on the Tyco package shows a picture of a Lego 2x4 and a Tyco 2x4 connected together. The written message is that Tyco works with Lego.

Mr. Bruno has extensive experience in market research relating to consumer goods, and was qualified as an expert to testify on his survey research.

Mr. Bruno interviewed women over 18 years of age who either had: (a) at the time of the interview, children under the age of 14; or (b) had ever purchased any building toys or blocks for children under the age of 14. Mr. Grey testified that Tyco print ads are aimed at mothers, (Tr. 115, 187), and that most Tyco sets are bought by women. (Tr. 299). Harold Frankel, Director of Product Planning for Tyco, testified that his analysis of Tyco's warranty cards shows that mothers are the principal purchasers of Tyco sets and, presumably, the person to whom Tyco's ads are directed. (P.Ex. 70-a)

Five hundred fifty seven such women were interviewed in shopping malls in eight cities geographically dispersed throughout the United States. The interviews were conducted by independent interviewing companies ("field services"), who were unaware of the identity of Mr. Bruno's client, that the survey was to be used for litigation, or of the purpose of sponsorship of the study.

Qualified respondents were first shown the Tyco 1985 print ad, "Boxes and Containers" (Def. Ex. H-2(d)) which states:

> "Tyco super blocks looks [sic] and feel like Lego blocks. And they work together too. Tyco just cost [sic] much less. So, if you can't tell the difference, why pay the difference."

They were then asked for the "main idea" of the advertisement. Sixty-eight percent (68%) of the respondents stated that the main idea was that Tyco products are cheaper or cost less than other products. (Bruno Report Page S-1). Over half of these respondents, or 38% of the total, made specific reference to Lego and stated that they believed that the main idea was that Tyco products were just as good as Lego products, but were cheaper, or that Tyco products were simply cheaper than Lego products. Thirty-three percent (33%) of the respondents thought that the main idea of the ad was that Tyco products are the same as

others, and 18.5% thought that the main idea was that Tyco products are the same as Lego.

The respondents were then asked what the statement "Tyco just costs much less" meant to them. Nearly one-half (48%) said that it meant that Tyco is cheaper than Lego.

The respondents were then asked a series of more specific questions about the advertisement. They were first asked: "out of all the Lego and Tyco sets, is it your understanding from this ad that the lowest priced set is a Lego set or Tyco set, or don't you have an understanding about that?" Ninety-seven percent (97%) of the respondents said that of all the Tyco and Lego sets, the lowest priced set is a Tyco set. In actuality, the lowest priced sets in 1985 were Lego sets Nos. 1964 and 1965, each of which had a wholesale price of 92 cents. In contrast, the lowest priced Tyco set was its set No. 5205, with a wholesale price of $2.10. Def. Ex. G-3(a) and (b)).

Next, the respondents were asked question 4(c): "Just from this ad, is it your understanding that if a Tyco set and a Lego set have the same number of pieces, they would cost the same, one set would cost less, or don't you have an understanding about that?" Eighty-six percent (86%) of respondents answered that if a Tyco set and a Lego set have the same number of pieces, the Tyco set would cost less. In actuality, in a number of cases where Tyco sets and Lego sets have the same or a similar number of pieces, the Lego sets cost less than the Tyco sets, both on a price per set basis and a price per piece basis. For example, Lego set 720 (Def. Ex. A-23), with 325 Pieces, has a wholesale price of $10.54 and a price per piece of 3.24 cents, whereas Tyco set 5230 (Def. Ex. C-6), with 350 pieces, has a wholesale price of $11.40 and a price per piece of 3.25 cents. Similarly, Lego set 520 (a 168 piece set), has a wholesale price of $5.88, and a price per piece of 3.50 cents, compared to Tyco set 5220 (a 180 piece set), with a wholesale price of $6.90, and a price per piece of 3.83 cents. Finally, Lego set 510 (Def. Ex. A-14), a 93 piece set, has a wholesale price of $3.09, and a price per piece of 3.32 cents, compared to Tyco set 5210 (Def. Ex. C-3), an 80 piece set, with a wholesale price of $4.20 and a price per piece of 5.25 cents (Def. Ex. G-3(a)).

The respondents were then asked question 4(f): "If a Lego set and a Tyco set have the same number of pieces and just from what you read and see in this ad, is it your understanding that they would have the same kinds of pieces, or different kinds of pieces, or don't you have an understanding about that?" In response to this question, 63% of the respondents said that if a Tyco set and Lego set have the same number of pieces, they would have the same kinds of pieces. (Def. Ex. M-1 at page S-2.) This suggests that the respondents believed, from the ad, that Tyco and Lego sets are comparable in terms of the kinds of pieces contained in them.

Alfred Vogel, a market researcher who testified at the trial[5] on behalf of Tyco, and who criticized the Bruno survey, agreed with Mr. Bruno that the response to question 4(f) shows that 63% of the respondents "would expect the same kinds of pieces" in sets having the same numbers of pieces. (Vogel Test Tr. 2213.) Both Mr. Vogel and Mr. Bruno inferred from that result that the respondents, in answering question 4(c), assumed that sets having "the same number of pieces" would have the same kind of pieces. (Tr. 2213).

The evidence and testimony showed that Tyco and Lego sets having the same or similar numbers of pieces are not comparable in terms of the kinds of pieces they contain. Lego sets for the most part have a vastly greater variety of pieces in them and vastly more complex elements than do Tyco sets, which are uniform in their contents throughout the Tyco lines.

The respondents were next asked question 4(g): "And finally, just from the ad, is it your understanding that Lego and Tyco produce the same number of sets, or does one have more sets than the other, or don't you have an understanding about that?" Mr. Bruno testified that this question was designed to determine whether the respondents believed from the ad that both companies offered the same number of sets in their lines. He further testified that few respondents could answer this question from the ad, and 65% said that they had no understanding.

---

[5] Mr. Vogel's testimony is discussed in more detail in the conclusions of law, below.

The final question in this series related to a Lego 510 set and a Tyco 5210 set, which were the most similar in kinds of pieces and size and kinds of models the two companies would build. (Tr. 1729). Both sets were displayed to the respondents. They were then asked question 4(i): "Just from what you read or saw in the ad, it is your understanding that one of these sets cost more than the other, or both cost the same, or don't you have an understanding about that?" Although the Tyco package is considerably larger than the Lego package, 75% of the respondents said that the Lego set would cost more. A member of Mr. Bruno's staff had purchased the Lego 510 set for $4.97 at Toys R Us in Lawrenceville, New Jersey, and the Tyco set 5210 at the same store at the same time for $6.97. These prices are in line with the wholesale prices in the area. (Def. Ex. G-3(a)).

Having completed the questions concerning the Tyco ad, the respondents were next shown packages of Tyco's pre-school blocks and standard blocks. Their attention was directed to the "bullet" and they were asked question 5A: "Just based on these packages, do Tyco standard super blocks connect directly with Tyco pre-school super blocks or not, or can't you tell about that?" In response, 89% of the respondents said they would connect directly.

Finally, to assess the importance of the adapter piece, the respondents were shown how a Lego block fits on top of a DUPLO block, how a Tyco standard size block fits on top of a DUPLO block, and how a similar Tyco standard size block will not fit on top of a Tyco pre-school block but can only be so used if a grey adapter piece is placed between them. This use of the adapter block on top of the pre-school block is illustrasted [sic] in Tyco's own instructions, which are packaged with each of its sets (Def. Ex. F-5). The demonstration followed Tyco's own booklet. Although Tyco contends that a standard size block will fit on the bottom of a pre-school block, its own instructions do not show this. Following this demonstration, the respondents were asked, "is the need for an adapter piece a feature you would consider important in deciding whether or not to buy Tyco sets?" Eighty-one percent (81%) said yes. The

respondents were then asked, "Thinking of the Tyco sets, is the adapter piece a feature that would make you more or less likely to buy Tyco sets?" Sixty-eight percent (68%) indicated that it would make their purchase less likely.

The statement that Tyco pre-school and regular size connect to each other appears on every package without a disclosure of the need to use the grey 2×4 adapter on top of the Tyco pre-school.

Lego also introduced a Tyco study conducted by Bozell & Jacobs. (Def. Ex. Q-23). The purpose of the study was to measure which of four ads best communicated the message that Tyco Super Blocks look, feel and work like Lego, but cost less. That survey measured the messages conveyed by the "Butterfly" and "Boxes and Container" * ads and by 2 proposed ads not used by Tyco. The Bozell & Jacobs report concluded that: "All four ads effectively communicated the main message ... that the Tyco product was less expensive than Lego ... that the two were the same or were compatible." " 'Butterfly,' and 'Boxes and Containers' [Tyco's actual ads] communicated the idea of some type of comparison with Lego to slightly, but significantly more respondents." The study also concluded that most viewers of the ads "understood that Tyco and Lego were the same or were compatible" and that "the Tyco product was less expensive than Lego" and that the main message of those ads were that there was "No difference between Tyco and Lego" or that "both [were] the same".

This result clearly confirms the Bruno finding that from the 1985 ad, consumers were likely to believe that the pieces in Lego and Tyco sets are the same or without difference. Tyco did not offer any contrary survey evidence

Section 43(a) of the Lanham Act is a remedial statute and is broadly construed by the courts to protect the consumer from

---

* The "Boxes and Containers" ad shows two 2x4's connected and Tyco boxes and a Tyco bucket surrounded by the following: "Tyco super Blocks look and feel like Lego blocks. And they work together, too. Tyco just costs much less. So, if you can't tell the difference, why pay the difference?"

false advertising, and also from "unfair competitive practices involving actual or potential deception." *SF&K Co. v. Premo Pharmaceutical Lab.*, 625 F.2d 1055, 1065 (3d Cir. 1980); *L'Aiglon Apparel v. Lana Lobell, Inc.*, 214 F.2d 649 (3d Cir. 1954). Thus, §43(a) prohibits not only representations which are literally false, but also statements which tend to deceive, or which create a false impression. *American Home Products Corp. v. Johnson & Johnson*, 577 F.2d 160, 165 (2d Cir. 1978). As noted in *American Home Products Corp. v. Johnson & Johnson:*

> That § 43(a) of the Lanham Act encompasses more than literal falsehoods cannot be questioned. Or if it otherwise [sic], clever use of inuendo [sic], indirect intimations, and ambiguous suggestions could shield the advertisement from scrutiny precisely when protection against such sophisticated deception is most needed.

577 F.2d at 165.

Thus, an advertiser's failure to set forth material facts needed to avoid deception or tendency to deceive, violates § 43(a). *U-Haul International, Inc. v. Jartran, Inc.*, 601 F.Supp. 1140, 1147 (D.Ariz. 1984), *aff'd* in relevant part, 793 F.2d 1034 (9th Cir. 1986)(failure to reveal that advertised prices did not include drop-off charges or were "special prices").

Where an ad is literally true, but is claimed to deceive, a violation of §43(a) must be based upon evidence showing what message the consumer will take from the ad. *McNeil Lab, Inc. v. American Home Products Corp.*, 501 F.Supp. 517 (S.D.N.Y. 1980). As noted in *McNeil Labs, Inc.*:

> Thus where as here the issue is whether true statements are misleading or deceptive despite their truthfulness, it is not enough to place statements alone before the Court. The plaintiff must adduce evidence (usually in the form of market research or consumer surveys) showing how the statements are perceived by those who are exposed to them. This does not mean

> that the conclusions of market researchers and other expert witnesses are binding on the Court. . . . Though the Court's own reaction to the advertisement is not determinative, as finder of fact it is obliged to judge for itself whether the evidence or record establishes that others are likely to be misled or confused. In doing so, the Court must, of course, rely on its own experience and understanding of human nature in drawing reasonable inferences about the reactions of consumers to the challenged advertising.

501 F.Supp. at 525.

Whether or not the alleged deception is material to a substantial portion of the intended audience is as much a part of the burden of proof of the complaining party as the false or misleading nature of the challenged claim. *Gimix, Inc. v. JS & A. Group, Inc.*, 669 F.2d 901, 908 (7th Cir. 1983).

On these issues, Lego is in the position of plaintiff and has the burden of establishing by a preponderance of the evidence that Tyco's claims are false or misleading. *Can Am Engineering Co. v. Henderson Glass, Inc.*, 620 F.Supp. 596, 601 (E.D. Mich. 1985).

If a claim is literally and unambiguously false, it may be enjoined without regard to consumer reaction. *S.C. Johnson & Son v. Carter-Wallace, Inc.*, 614 F.Supp. 1278, 1315, 1319 (S.D.N.Y. 1985). If a claim is not literally and unambiguously false, but is capable of being interpreted so that is true [sic], whether or not the claims should be enjoined depends on whether consumers will probably be misled or deceived by the claim. *Ragold, Inc. v. Ferrero, U.S.A., Inc.*, 506 F.Supp. 117, 128 (N.D.Ill. 1980) (where the challenged representations are capable of divergent readings, at least some of which are grammatically true, reference to public reaction is essential to assess the meaning of the representations). Claims must be interpreted reasonably. That is, the claim is not misleading if it is generally true, or true on average, even if exceptions may be found. *Walker-David Publications, Inc. v. Penton/IPC, Inc.*, 509 F.Supp. 430, 436 (E.D.Pa. 1981).

Properly conducted surveys provide the most reliable measure of whether or not there is a probability of deception. *American Brands, Inc. v. R.J. Reynolds Tobacco Co.*, 413 F.Supp. 1352 (S.D.N.Y. 1976). As noted by that Court:

> The Court may. . .construe and parse the language of the advertisement. It may have personal reactions as to the defensibility or indefensibility of the deliberately manipulated words. It may conclude that the language is far from candid and would never pass muster under test otherwise applied [sic]—for example, the Securities Act's injunction that shall disclose [sic]; but the Court's reaction is at best not determinative and at worse [sic] irrelevant.

Id. at 1357.

In trademark and unfair competition litigation, the results of properly designed and executed consumer surveys have been consistently accepted by courts as probative evidence on the issue of likelihood of confusion. *National Football League Properties v. N.J. Giants*, 637 F.Supp. 507, (D.N.J. 1986); *Caesar's World, Inc. v. Caesar's Palace*, 490 F.Supp. 818, 827 (D.N.J. 1980).

The proponent of a consumer survey has the burden of establishing that it was conducted in accordance with accepted principles of survey research, i.e., that (1) a proper universe was examined; (2) as [sic] representative sample was drawn from that universe; (3) the mode of questioning the interviewees was correct; (4) the persons conducting the survey were recognized experts; (5) the data gathered was accurately reported; and (6) the sample design, the questionnaire and the interviewing were in accordance with generally accepted standards of procedure and statistics in the field of such surveys. *National Football League Properties*, 637 F.Supp. at 512, citing, Federal Judicial

Center, Manual for Complex Litigation, 116 (5th ed. 1981).[7] *See Pittsburgh Press Club v. United States*, 579 F.2d 751, 758 (3d Cir. 1978) (setting forth substantially the same criteria).

Lego has established that the survey relied upon was conducted in accordance with accepted principles of survey research.

Tyco responded to the Bruno survey by offering the testimony of Mr. Alfred Vogel of Response Analysis Corporation.

Although Mr. Vogel offered criticisms of the Bruno survey, I conclude that these are entitled to little weight. As the court noted in *U-Haul International, Inc. v. Jartran, Inc.*, 522 F.Supp. 1238, 1252 (D. Ariz. 1981), *aff'd*, 681 F.2d 1159 (9th Cir. 1982), "[I]t is relatively easy for one expert to criticize a survey done by another expert." *See also* 2 McCarthy, *Trademarks and Unfair Competition* (2d ed. 1984), 32:50 at 779 ("It is notoriously easy for one expert to appear to tear apart the methodology of a survey taken by another. However, one must keep in mind that there is no such thing as a 'perfect' survey"). In the *U-Haul* case, the criticism was given no weight, in part because the critic had done no survey of his own to support his arguments. Here, too, Mr. Vogel has done no survey or other research of his own to support his arguments.

---

[7] As noted in the cited opinion, the 1985 edition of the Manual for Complex Litigation has modified the standards for conducting a consumer poll as follows:

> Polls and surveys – a species of sampling that involves interrogation of individuals about such matters as their observations, actions, attitudes, beliefs, or motivations – require special attention. The parties should be required, before conducting any poll, to provide other parties with an outline of the proposed form and methodology, including the particular questions that will be asked, the introductory statements or instructions that will be given, and other controls to be used in the interrogation process. The parties should attempt to resolve any disagreements concerning the manner in which the poll is to be conducted, and a meeting between the experts engaged by the litigants may produce a mutually acceptable plan. Of course, the results and any opinions based on the poll should be disclosed promptly after it has been taken. Manual for Complex Litigation 88,89 (5th ed. 1985).

Further, although Mr. Vogel claimed that Mr. Bruno's conclusions were "false" (Tr. 2245), Mr. Vogel offered no competing data to show falsity. This Court cannot conclude from Mr. Vogel's testimony that the Bruno data is [sic] false. Instead, I find that it is substantially correct despite the alleged methological [sic] defects. *The President and Trustees of Colby College v. Colby College – New Hampshire*, 508 F.2d 804 (1st Cir. 1975)(reversing rejection of survey results based on expert criticism when expert had done no survey of his own.); *National Football League Properties, Inc., supra* (noting failure of defendant to conduct competing survey.) Indeed, Mr. Vogel was forced under cross examination to admit that he could not say that Mr. Bruno's conclusions about the messages of Tyco's ads were wrong, but only that he criticized the way Mr. Bruno arrived at his conclusions. (Tr. 2254-55).

Mr. Vogel testified that a shopping mall (or "mall intercept") survey is not projectable, and therefore no generalization can be made from it. He suggested that a shopping mall survey should not be relied upon in litigation. However, courts have repeatedly accepted mall intercept surveys in litigation. In *National Football League Properties, Inc.*, the Court reviewed the requirements for use of surveys in litigation, and specifically held that mall intercept surveys are both acceptable and reliable. *Id.* at 514-15.

Although "self-selection" may be a problem with mall intercept surveys, it is not sufficiently great to invalidate the survey. Cooperation is a problem with all survey research. Mr. Vogel provided no reason to believe those who chose not to participate in this survey would answer any differently than those who did participate. In addition to suggesting that a type of survey other than a shopping mall survey should have been done, which is unnecessary in view of the widespread judicial (and business) acceptance of mall intercept studies, Mr. Vogel suggested two other procedures to increase the "completion rate." First, he suggested keeping a tally of the number of persons who refused to talk to the interviewers. But Mr. Vogel failed to explain what purpose this would serve, since, by definition, nothing would be known about the opinions of those who refused. Indeed, it

would not even be possible to know whether these people would have qualified for inclusion in the survey. Second, he said Mr. Bruno should have, but did not, gather information on the demographics of those he did interview, presumably to see if they match up with known characteristics of a cross-section of the population, as shown in census data. But Mr. Vogel was incorrect on this point: Mr. Bruno did obtain data on age, income, and education, which is reported at pages 35-38 of his report. Mr. Vogel obviously had the opportunity to examine this data and determine if the respondents were representative. Since he failed to do so, the Court concludes that they are representative.

Mr. Vogel also argued that the "universe" or sample from which the respondents were selected was not proper since the survey does not sample persons who had an intention to purchase building blocks or had bought them recently. (Tr. 2239).

Universes similar to that used by Mr. Bruno have been accepted by this Court and others, even in likelihood of confusion cases, where the correct universe includes purchasers and prospective purchasers. *See American Greetings v. Dan-Dee Imports, Inc.*, 619 F.Supp. 1204 (D.N.J. 1985) *aff'd* in relevant part, 807 F.2d 1136 (3d Cir. 1986)(universe survey [sic] involving toys was mothers of daughters ages 4-12 and was accepted by the court as an appropriate universe); *National Football League Properties, Inc. v. New Jersey Giants, Inc., supra.*, (universe surveyed consisted of persons over 14 years of age who had either purchased a clothing item with a name, slogan or picture on it in the past twelve months or planned to do so in the next six months not limited to purchasers of the parties' products, and included persons who may have had no current purchasing intent).

Mr. Vogel also asserted that Mr. Bruno used the wrong frame of reference by asking questions in terms of sets, rather than blocks. Mr. Vogel felt that the ad was likely to be perceived as speaking in terms of blocks, and that consumers will believe the ad is making a price comparison based on comparable blocks. Mr. Grey, Tyco's President, and Mr. Lurie, its Vice President for Advertising, both testified that the ad refers to sets, not blocks.

(Tr. 251, Lurie Dep. test., Tr. 2153-54). They conceded that the consumer cannot purchase blocks, only sets containing blocks. Moreover, Mr. Vogel's own testimony showed that a "comparable blocks" frame of reference is unrealistic because he admitted that blocks cannot be purchased separately, but must be purchased in sets. (Tr. 2261). He also admitted that packages in stores are sealed and consumers may not open them. (Tr. 2279).

Even assuming that both Lego and Tyco sets were available in a particular store for comparative purposes, it would be difficult for a consumer to determine what blocks are comparable, particularly in the case of Tyco's "bucket" sales packages which are sealed and have no window. Mr. Vogel confirmed this difficulty when he was asked how a consumer would determine what blocks are comparable. He testified that the consumer would have to ask the salesperson, and, if the store had no salesperson, he said, "Well, I guess you—you would buy the product that you would buy and go home and then—I don't know what you'd do. It would vary what you would do." (Tr. 2280). Clearly, a comparison of blocks by the consumer is not a realistic expectation and that is not the message sent by Tyco or conveyed by its ad.

Mr. Vogel also asserts that the question 4(k) (which asked for a price comparison of Lego 510 and Tyco 5210 based on the ad) is unrealistic. (Tr. 2229). He asserts that it would have been better if consumers had been shown an array of Lego and Tyco sets, asked to pick a pair that they would consider comparable, and then asked which would be cheaper, based on the ad. The law protects even those consumers who are not, as Mr. Vogel put it, "resourceful". (Tr. 2286). As the Second Circuit stated long ago, in a similar context:

> The law is not made for the protection of experts, but for the public—that vast multitude which includes the ignorant, the unthinking and the credulous, who, in making purchases, do not stop to analyze, but are governed by appearance and general impressions.

Florence Mfg. Co. v. J.C. Dowd & Co., 178 F. 73, 75 (2d Cir. 1910.)

In addition, Mr. Vogel's suggestion that respondents should have been shown an array of sets is rejected becasue [sic] the evidence showed that consumers do not and actually could not go through the process Mr. Vogel postulates. First, at least one large chain in 1985 sold Tyco, but not Lego, products (Tr. 1295.) Second, those stores that sell both Lego and Tyco products generally do not stock a broad range of each company's products, precluding the kind of comparison Mr. Vogel suggests. (Tr. 2287). Third, Mr. Vogel admitted that some consumers might not attempt to make a comparison. (Tr. 2285). Fourth, those consumers who tried to compare sets would be frustrated by the sealed packages used by both companies, not to mention Tyco's windowless buckets and Lego's small windowless boxes. Fifth, even those consumers who are inclined to make a comparison, are, as Mr. Vogel admitted, "not going . . . to spend all day." (Tr. 2287). Rather, he said, they will "take it on faith." (Tr. 2287). In other words, if making a comparison is too difficult, they will accept the ad's claim that Tyco "just costs much less".

Mr. Vogel speculated that consumers may have believed Lego products to be expensive and may have answered question 4(k) based on these prior beliefs, rather than solely on the basis of the ad. But Mr. Vogel provided no evidence that this occurred. In fact, in response to open-ended questions, ("why do you say that"), typically less than 2% mentioned any prior familiarity with the products. Even if consumers hold such beliefs about Lego products, those consumers are part of the audience for the Tyco ad, and as shown by the analyses of Tyco's warranty cards, (Def. Ex. R-35), are even more susceptible to being misled by it.

Mr. Vogel also criticized the language of Mr. Bruno's questions. Many of the questions end with the option "or don't you have an understanding about that." Mr. Vogel asserted that this phrase is not as effective as asking whether the ad gives the requested information. (Tr. 2218). Mr. Bruno, on the other hand, claimed that there was no practical difference between the two phrases; both give the respondent the option of saying the ad has not communicated a particular fact. Although the Bruno questions could conceivably have been more effective in offering the respondents the option of not answering, Mr. Vogel

could not opine that this "defect" in fact affected the results in any significant way.

Moreover, questions which did not even contain the "or don't you have an understanding" language, have been accepted. In *McNeilab, Inc. v. American Home Products Corp.*, 501 F.Supp. 517 (S.D.N.Y. 1980), the following two questions were upheld despite a claim that they were leading:

> "From what you have seen or heard in the commercial, do you think that they were attempting to compare Maximum Strength Anacin to the brand of pain reliever you, yourself, use most often?"
>
> "Based only on what the commercial said, would Maximum Strength Anacin contain more pain reliever, the same amount of pain reliever, or less pain reliever than the brand you, yourself, currently use most often?"

501 F.Supp. at 525.

Neither of these questions tells the respondent that one possible answer is that he or she does not have an understanding from the commercial, yet both were accepted.

With respect to question 6a, b and c, which dealt with the adapter block, Mr. Vogel contended that the demonstration of the blocks was "deceitful and misleading". (Tr. 2220). However, Mr. Vogel admitted that his knowledge of how the parties' blocks fit together was at best incomplete, (Tr. 2274-75), and the demonstration was exactly in accord with Tyco's own instruction sheet in all of its sets. (Def. Ex. F-5). He also said that Question 6(b), which asks if the need for an adapter piece is important to consumers, was without a frame of reference against which to weigh the respondents' notion of importance. However, Question 6(c) provides such a frame of reference. Of those who said the need for an adapter is an important feature, 68% said it would make a Tyco purchase less likely. In sum, Mr. Vogel's criticisms do not cast doubt on the overall validity of the data arrived at in the Bruno survey, particularly since Mr. Vogel did not conduct a survey himself to contradict the results of the Bruno survey.

C. *Tyco's claim that its product "looks and feels like Lego"*

Tyco's claim that "Tyco looks like Lego" is true only with regard to six of the pieces found in Tyco's regular-size basic sets. In fact, most pieces in Tyco sets do not look the same as Lego or find a counterpart in Lego sets. In February 1986, Tyco had about 38 elements and blocks that are different from Lego blocks or elements. (Tr. 2160). Many Tyco pieces intended to be used the same way as corresponding Lego pieces, e.g., roof tiles, wheels, hinges, pre-school blocks with solid studs, and a variety of accessory pieces, do not look like Lego or DUPLO. Thus, Tyco's claim is at best only partly true and tends, therefore, to mislead or falsely describe its product. Tyco's placing of a bag of similar looking pieces in the windows of its boxes and its showing of the identical 2x4 blocks on all packages and in all ads is intended to create the impression that all Tyco blocks look like Lego. This tends to deceive. This is especially true with the Tyco sets packed in buckets because none of the pieces can be seen by the consumer. Sizes and shapes in Tyco and Lego sets vary. Tyco argues that this ad and the others specifically and repeatedly refer to blocks and not to sets in making such claims. In fact, Tyco's claim that "Tyco looks like Lego" is true only with regard to six of the pieces found in Tyco's regular-size basic sets.

Although the Tyco blocks do work together with the Lego blocks, Tyco's claim that its blocks "feel like Lego" is false. Tyco intentionally reduced the clutch power of its pieces so that they would fit more loosely than Lego blocks. As Mr. Martin testified in deposition, the clutch power of Tyco had to be close to Lego, "because from a consumer's standpoint, blocks are designed to be or the Tyco block is designed to be indistinguishable from the Lego block." He testified that a different gripping force would make the Tyco block distinguishable from Lego to a consumer. This Court does not accept Tyco's argument that the word "feel" as used in Tyco's ads is not the same as "fit". Mr. Grey admitted that gripping force and feel are the same or related. He testified, with regard to clutch power or fit, that "Lego blocks had a real good feel, but tended, if anything, to be a little tight. So we said that we would use the Lego feel and the tight end of the dimension and try to be just

as [sic] little bit looser." To deliberately change this "feel" and then advertise that Lego and Tyco feel the same, that there is no difference in feel, is a deliberate false representation of Tyco's product.

D. *Tyco's claim that you can't tell the difference: the "toy box" concept.*

The basic 1985 print ad which is a reasonable representative of all Tyco's advertisements, states in relevant part,

> TYCO SUPERBLOCKS LOOK AND FEEL LIKE LEGO BLOCKS. AND THEY WORK TOGETHER TOO. TYCO JUST COSTS MUCH LESS. SO, IF YOU CAN'T TELL THE DIFFERENCE, WHY PAY THE DIFFERENCE?

This print is the dominant element of the advertisement. In smaller print at the bottom the ad says:

> We'll prove it! To receive two Super Blocks free, send your name, address and zip code to "Free blocks" . . .

Tyco's claim that its product is "substantially the same" as Lego's is false because the set contents are vastly different. Tyco's message to consumers that Tyco and Lego sets can be mixed together indiscriminately and that the child need not care which one he pulls out of the toy box tends to mislead the consumer as to the degree of similarity between Lego and Tyco sets. This "toy box" theory ignores the numerous differences between the pieces within the sets as well as the difference in the fit between the blocks. Tyco copied only a small number of blocks in Lego's sets. Outside of those few basic pieces, there are numerous pieces in Tyco and Lego sets which do not work together due to variations in the dimensions of the pieces and do not look alike even though they purport to be similar, including similar pieces which one would expect to work together if any did.

By way of example, one of the most obvious differences between the Tyco and Lego systems is the fact that the only regular-size block of either company which fits on Tyco's pre-school

block is the grey Tyco adapter block. In contrast, 39 Lego standard size pieces, including all blocks of a 2x2 configuration or larger fit on top of Lego's DUPLO block, as demonstrated by Mr. Bruhn. (Tr. 1648-51 Def. Ex. R-38 and R-39). Moreover, the adapter block does not have the same clutch power in its connection with Tyco pre-school as do Lego's standard and DUPLO sizes. (Tr. 1652). Thus, contrary to Tyco's ad, the child using the parties' pre-school and regular-size blocks together must in fact care whose pre-school size he pulls out of the toy box. The message of Tyco's advertising is that Tyco pre-school and DUPLO blocks are identical when, in fact, the products are visually dissimilar and function differently.

In addition, there are numerous Lego and Tyco pieces which do not work together in the same way or at all. Once again the child must care which he pulls out of the "toy box". The many material differences between the sets include the following: the Tyco man cannot ride on the Lego horse and vice versa, (Tr. 1786); the Lego chariot cannot be mounted on the Tyco horse, (Tr. 1785-86, Def. Ex. R-46); the Lego and Tyco wheels are different diameters and thus cannot be used together, (Tr. 1790-94, Def. Ex. R-48); the Lego wagon cannot be connected to a Tyco tractor, (Tr. 1799); the various Lego hats, helmets, wigs and equipment cannot be placed on the Tyco figure, (Tr. 1801-03, Def. Ex R-49); the Lego 1/3 height and Tyco 1/2 height pieces cannot be used interchangeably or built together in the same model, (Tr. 1804-09, Def. Ex. R-51); the Tyco and Lego doors and windows cannot be used interchangeably in building a house, (Tr. 1809-12, Def. Ex. R-52.); the Tyco and Lego cockpits cannot be used interchangeably, (Tr. 1812-13, Def. Ex. R-53); the Tyco and Lego hinges cannot be used interchangeably, (Tr. 1813-15, Def. Ex. R-54); the Tyco figure cannot fit on the Lego ladder, (Tr. 1817, Def. Ex. R-56); the Tyco and Lego roof tiles cannot be used interchangeably. (Tr. 1822-24, Def. Ex. R-58.).

In each of these cases, the child would expect the Tyco and Lego pieces to work together and they do not; similarly appearing Tyco pieces cannot be used in place of the Lego pieces. To that extent, the message of Tyco's ads tends to falsely describe the Tyco sets vis-a-vis Lego sets.

In sum, the Court finds that there are numerous differences between Tyco and Lego sets which prevent them from being used interchangeably as suggested by Tyco's advertising. Tyco's advertising claim – that "you can't tell the difference" between Tyco and Lego sets is demonstrably false and misleading. Tyco's ads and packages convey the toy box concept, but contrary to their message, the child must frequently care which party's piece he or she pulls out of the toy box.

E. *Tyco's claim that "you can build a bigger" structure with Tyco than with Lego for the same amount of money.*

Tyco's advertising claim that one can build a larger structure for the same price with Tyco than with Lego is false by Tyco's own comparative standards. Tyco sets on the whole contain a large number of small, one-stud pieces. Most of the Lego sets which Tyco contends are comparable are 3+ sets which contain only larger pieces of 2 studs or more in each direction. As a result, the Lego 3+ sets build larger fish or houses than the Tyco sets chosen by Tyco for comparison notwithstanding that the Tyco sets have more pieces for the money. For example, Tyco elects in its comparisons to compare its 5205 to Lego 310, a more expensive set. The Lego set does have a higher price per piece, because its pieces have more plastic in them. However, the Lego 310 builds much larger structures than the Tyco 5205, because the Lego 310 is composed of larger pieces. This fact was graphically demonstrated by the structures built by Mr. Bruhn out of all of the pieces in each set (Def. Ex. A-5, C-2., Tr. 1719-20). Thus, Tyco's claim that "you can build a bigger" model with Tyco than with Lego is, in this case, demonstrably false in spite of the fact that there are more pieces in the Tyco 5205 than in the Lego 310.

The same is true with regard to each and every 3+ set to which Tyco elects to compare its sets, and is even more true with regard to Tyco's 1986 sets which contain even larger numbers of small 1x1 and 1x2 pieces than Tyco's 1985 sets. Only with regard to the very disparate sets, e.g., the Tyco 5250 and the Lego 577 does Tyco build larger models for the same amount of money.

I conclude therefore that, based on the very sets Tyco elected to compare, Tyco's claim that a larger fish or house can be built because Tyco gives more blocks for the money is false and tends to deceive by suggesting to the consumer that the size of the pieces in Lego and Tyco sets is essentially the same.

F. *Tyco's claim that its pre-school and standard-size blocks "connect" to each other.*

Tyco also claims in the bullet on its packaging that "Tyco Super Blocks connect to Lego blocks and Tyco Pre-School Super Blocks." This statement is accompanied by a picture showing two blocks directly connected to each other and is repeated on the back of each Tyco package (Stip. at 18) and in many Tyco ads. The phrase "Works with Lego" also appears in each case. In fact, Tyco standard size blocks do not connect directly on Tyco pre-school size blocks in the manner pictured. Instead, an adapter block in 2x4 size only, and only in the color grey, is the only standard size piece which fits on Tyco pre-school and it must be used in order to combine the two sizes of Tyco blocks. (Stip. at 16, Tyco Building Hints, Def. Ex. F-5) The need for the adapter block is not disclosed on Tyco's package. This tends to mislead that part of the public which owns Lego and DUPLO — the very public Mr. Grey testified was the target of Tyco's sales efforts.

The Bruno survey, already discussed in detail, also demonstrates a high level of confusion among the public generated by the "bullet" regarding the fact that only the adapter block among Tyco standard size blocks connects to the Tyco pre-school blocks, and that the two sizes of Tyco blocks do not connect directly to each other. After being asked to read the Tyco "bullet", eighty-nine percent of the respondents in the Bruno survey responded affirmatively when asked whether they thought the Tyco standard and pre-school size blocks would connect directly. (This question was asked before the respondents were shown the way the adapter worked, not afterward, as implied by Tyco's survey critic, Mr. Vogel.) When the use of the adapter block was demonstrated to the respondents in the Bruno survey, sixty-eight percent stated that the omitted fact that one

needed to use an adapter block would make their purchase of the Tyco product less likely.

Tyco deliberately changed the language of its "bullet" to read "connects to" to describe the interfit of Tyco regular-size and pre-school blocks and created its misleading advertising and packaging after being warned by counsel against false advertising. In December 1983, the subscript for the Tyco pre-school bullet was intended to read "Tyco pre-school super blocks may be used with DUPLO blocks and Tyco standard super Blocks" (emphasis added). (Def. Ex. Q-15, Lurie Dep., Tr. 2154). That copy, which parallels that of other manufacturers such as Torro ("they fit Lego building bricks too"), and Edu Bric ("Fits Lego") (Tr. 125), was changed to "Tyco Super Blocks connect to Lego blocks and Tyco pre-school blocks" (emphasis added) (Lurie Dep. Tr. 2154) at the direction of Mr. Grey. (Lurie Dep. Tr. 2155-56). While "may be used with" may be an accurate representation with regard to the Tyco standard and pre-school sizes, assuming Tyco made prominent disclosure on the package of the need for the adapter block and assuming that the consumer purchases one of Tyco's regular size sets that has an adapter block, the statement thats [sic] the two sizes "connect" to each other tends to mislead because it suggests that they connect to Tyco pre-school the same way they connect to DUPLO. Indeed, two blocks are shown in the bullet directly connecting to each other immediately adjacent to that phrase. While they connect to DUPLO directly, they do not connect to Tyco standard-size blocks except by use of the adapter block whose need and existence is not revealed. It is striking that Tyco early on had non-misleading language in its "bullet" and deliberately changed it to language which at a minimum tends to mislead the public as to the relationship between Tyco's regular and pre-school blocks.

There are only a small number of adapter blocks within most Tyco sets. There are only 4 adapter blocks in Tyco set 5210, and none in Tyco set 5205 (or in its 1986 successor, set 5207). Mr. Grey testified, (Tr. 268), that the omission of the adapter block from 5205 (the least expensive Tyco set) was a mistake in the early production that was corrected. This statement was shown to be false. That set was introduced in 1985 and its 1986 successor, 5207, still lacked the adapter block. (Tr. 1696-1700). Thus, a child

progressing from Tyco pre-school blocks to Tyco standard size blocks will be severely limited in the types and sizes of structures he can build onto his Tyco pre-school blocks, and the child may not be able to combine the two sizes at all if the only standard size Tyco set he has is a Tyco 5205 or 5207. In contrast, every block in the Lego 3 plus sets, which are designed for children "graduating" from DUPLO, connects directly upon Lego's pre-school DUPLO size.

Tyco argues that many Lego pieces do not fit directly on DUPLO, and that Tyco's claim is in effect no different from Lego's own claim that Lego "works together with DUPLO". However, there are two fundamental differences. First, although small 1x Lego pieces will not fit directly on DUPLO, the basic 2x4 (which Tyco prominently features in its bullet and in its ads) does fit directly on DUPLO. The basic 2x4 will not, however, fit directly on Tyco's pre-school. Moreover, to the extent that a small Lego piece (for example, a 1x3 block) will not fit on DUPLO, the Tyco 1x3 will not fit on Tyco Pre-School either. If Tyco makes a counterpart to any Lego piece that will not fit on DUPLO, the Tyco counterpart will not fit on Tyco-Pre-School (or on DUPLO). The significant difference is that no Tyco standard piece (except the adapter) fits on its pre-school, whereas many Lego pieces fit on DUPLO. Second, the language of the advertising is different. Lego says only that Lego "works together with DUPLO," whereas Tyco specifically states that Tyco standard "connects to Tyco Pre-School".

Tyco's statement on its packages that its pre-school and standard sizes connect to each other when accompanied by an illustration of two blocks directly connected to each other is likely to deceive the public into the belief that the two sizes connect to each other when in fact they do not. This tendency to deceive is confirmed by warranty cards received by Tyco from purchasers of its sets specifically complaining that Tyco's advertising is deceptive because it fails to disclose the need for an adapter piece, or because the two sizes don't fit with each other or with Lego. (Def. Ex. R-28(a), looseleaf notebook, first and second sections of warranty cards).

The results of the Bruno survey is [sic] sufficient evidence to prove that consumers are deceived by Tyco's claim in the "bullet" on its packaging that Tyco standard-size blocks connect to its pre-school size blocks. Seventy-five percent of respondents in the Bruno survey thought from reading the Tyco "bullet" that the Tyco standard and pre-school size blocks would connect directly to each other, a reasonable assumption since the bullet shows two directly connected blocks.

G. *Tyco's claim that its sets are less expensive than comparably priced or comparable Lego sets.*

Until October 1984, Tyco's claim that "Tyco just costs much less than Lego" was purportedly based on "actual piece count of comparably priced sets". This specific claim was untrue. In 1985, Lego set 720 had a wholesale price of $10.54, Tyco set 5225, a price of $10.20. These were the closest in price of all basic sets, on a percentage basis. The Lego set cost 3.24 cents per piece, the Tyco 3.84 cents, or .6¢ more for each piece. Additionally, Tyco set 5205 cost $2.10 at wholesale. Lego set 508 costs $1.85, a difference of 25¢ (which is less than the difference of 32¢ between that Tyco set and the Lego sets 310 to which Tyco elected to compare it in Tyco's price comparisons). The Lego 720 was also less expensive per piece than the Tyco 5230 at $11.40 and the Tyco 5261 at $10.80. The Lego 5220 costs $6.90 at wholesale, the Lego 520 costs $5.88 (far closer than the $9.91 cost of the Lego 520 to which Tyco actually compared its 5220). The Lego costs a third of a cent less per piece than the Tyco. Thus, Tyco's claim based on "comparably priced" sets was false, or at best, partly true and partly false, and thus tended to mislead. (Lego price comparisons, Def. Exs. G-3(a), G-3(b)).

In October 1985, Tyco changed its advertising to state that its claim was based on actual piece count of "comparable sets". The evidence indicates that this claim is also false because in almost all cases Tyco sets are not comparable to Lego sets, and where the sets are most similar, Lego is invariably less costly.

The falsity of Tyco's claims was graphically demonstrated by the testimony of Jorgen Bruhn, Lego's Vice President of

Product Development, who has 22 years of experience with sets of such blocks, how they are created, and how they are used by children. Mr. Bruhn examined the array of pieces in Tyco and Lego sets as well as the differences between the individual pieces within each set. In particular, Mr. Bruhn addressed the written price comparisons, (Def. Exs. F-25, F-26), created by Tyco to substantiate the claims made in Tyco's advertising, and also price comparisons submitted by Tyco to the Court (Pl. Exs. 281 and 281-a). Mr. Bruhn's testimony convincingly demonstrated that the Lego sets compared by Tyco were not comparable due to vast differences in the size of the pieces within the sets, the complexity of the pieces in the sets, or both. Moreover, he showed that Tyco's comparisons ignore numerous Lego sets which are more comparable to the Tyco sets than those selected by Tyco for comparison, and which are less expensive than the Tyco sets.

Thus, I find that the deceptive impression created by Tyco's advertising is confirmed by the Bruno Survey conducted for Lego. Sixty-three percent (63%) of respondents in the Bruno Survey assumed from Tyco's ad that if Tyco and Lego sets had a similar number of pieces, they would have the same kind of pieces, when in fact there are vast differences between almost all Tyco and Lego sets. Further, the Bozell and Jacobs Study conducted for Tyco is even stronger evidence that the consumer will be deceived by Tyco's advertising. Sixty-one percent (61%) of consumers seeing Tyco's 1984 "butterfly" ad and fifty-seven (57%) seeing Tyco's 1985 "boxes and containers" ad believed that the main message of the ads is that Tyco and Lego products were the same. When the respondents in the Bruno Study were shown the Tyco set 5210 and Lego set 510 which have somewhat similar array and number of pieces, 75% thought that the Lego set would cost more, when in fact it is less expensive. While Tyco contested the methodology of the Bruno Survey, the survey is evidence of the tendency of the ad to deceive. The pertinent issue is not the specific percentage of deception revealed in the survey, but rather the tendency to deceive. *See McNeil Lab, Inc. v. American Home Products, Corp., supra.*

H. *Relief granted.*

Consistent with these findings, an Order will be entered enjoining Tyco from using the language "Tyco looks and feels like Lego blocks" and "if you can't tell the difference why pay the difference" in their advertising of Tyco building block sets. This language is confusing when read or heard in the context of the advertisement because of the distinction purportedly being made between blocks and sets. The confusion arises because when Tyco says "if you can't tell the difference why pay the difference" it is referring to cost of sets, but when Tyco says "looks and feels like" it is referring to blocks not sets. The advertisements have pictures of both blocks and sets. Clearly, there are discernable differences in the clutch power of the blocks, and there are vast differences between Lego and Tyco sets. Tyco has a much more limited number and variety of elements. Further, the need to use an adapter block was not disclosed. Therefore, the language noted above tends to deceive and must not be included in advertisements.

The Order entered will not order Tyco to engage in affirmative corrective advertising, but will order Tyco to cease and desist the advertising I have found to be misleading.

IV. *PART TWO: THE CLAIMS CONCERNING COMMON LAW TRADEMARK AND UNFAIR COMPETITION*

In Part II of the trial, Lego claimed that it held a protectible common law trademark in the 2x4 block; and that Tyco's use of a copy of the Lego 2x4 block and display of that configuration on Tyco packages through the window of Tyco boxes constitute unfair competition in violation of Section 43(a) of the Lanham Act and of the New Jersey Law of Unfair Competition. Lego also claimed that Tyco's use of the Lego trademark on Tyco's packaging is likely to cause confusion in violation of section 32(i) of the Lanham Act, 15 U.S.C. § 1114(i).

A. *Tyco's Copy of the 2x4 Block*

The last of the Lego patents expired or was dedicated before 1983[8] — the year in which Tyco began marketing its toy building blocks. Although its blocks are unprotected by patent or registered design trademark, Lego is entitled to protection from unprivileged imitation by competitors if it can demonstrate that the 2x4 block has achieved common law trademark status. *See Time Mechanisms Inc. v. Qonaar Corp.*, 422 F.Supp. 905, 909-11 (D.N.J. 1976) ("The ownership of a federal trademark registration simply supplements the rights accorded at common law which stem from the ownership of a trademark.").

To establish an unprivileged imitation under section 43(a) of the Lanham Act[9], the plaintiff must show that the imitated feature or combination of features is non-functional, has acquired a secondary meaning, and that the purchasing public is likely to confuse the source of the imitating product feature with the source of the imitated product feature. *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 807 F.2d 1136, 1141 (3d Cir. 1986), citing, *Ciba-Geigy Corp. v. Bolar Pharmaceutical Co., Inc.*, 747 F.2d 844, 854 (3d Cir. 1984). Thus, generally the functional features of a product are not entitled to the protection provided by trademark law. *Standard Terry Mills, Inc. v. Shen Mfg. Co.*, 803 F.2d 778 (3d Cir. 1986). However, even though a feature or combination of features is functional, and may be copied, (even if confusion in the marketplace will result), *American Greetings Corp.*, 807 F.2d at 1141, citing *Keene Corp. v. Paraflex Industries*, 653 F.2d 822, 827-28 (3d Cir. 1981), "the imitator may be required to take reasonable steps to minimize any confusion as to the source of the project [sic], if the product has acquired secondary meaning." *American Greetings*, 807 F.2d at 1141.

---

[8] Except for patent no. 3,597,875 the scope of which does not extend to any Tyco product.

[9] This federal cause of action for unfair competition "is governed by the same analysis that prevails with respect to the New Jersey Law of Unfair Competition." *American Greeting Corp. v. Dan-Dee Imports, Inc.*, 807 F.2d 1204, 1218 (3d Cir. 1986).

1. *Functionality*

In deciding whether a product feature, or combination of features is functional, the court must look to:

> Whether [the] particular features of [the] product or service is substantially related to its value as a product or service, i.e. if the feature is part of the "function" served, or whether the primary value of a particular feature is the identification of the provider.

United States Golf Association v. St. Andrews Systems, 749 F.2d 1028, 1033 (3d Cir. 1984), as quoted in *American Greetings*, 807 F.2d at 1142. Thus, a functional feature is "an important ingredient in the commercial success of the product," not simply one adopted for the primary purpose of identification. *Ives Laboratories Inc. v. Darby Drug Co.*, 601 F.2d 631, 643 (2d Cir. 1979). It is one that has a "significant relation to the utilitarian function of the product." *American Greetings*, 807 F.2d at 1142 *citing Keene Corp.*, 653 F.2d at 825.[10]

---

[10] Lego submitted Exhibit R-71 comprising exhibits and extracts from Requests For Admissions and from depositions of Tyco's officers and managing employees and the record of the trial in Hong Kong to be considered as evidence on the grounds that each constitutes an admission by Tyco. Tyco did not oppose admission into evidence of its responses to Lego's Request to Admit No.'s 1-6. Tyco specifically objects to the admission into evidence of any testimony or exhibits which were part of the Hong Kong trial. In the Hong Kong trial Lego brought suit against Tyco on the theory that by reproducing the Lego product, Tyco was infringing on an unregistered Lego copyright on its engineering drawings. At issue in that case was whether certain lego blocks and elements had aesthetic attributes, i.e., whether the pieces possessed so called "eye-appeal" within the meaning of the British Design Registration Act of 1949. For the reasons set forth below, I did not consider the Hong Kong material.

The Height Report and testimony were not considered because the statements, although factual, were made in a very different legal context. Although Lego argues that these are "factual statements and factual positions" not legal conclusions, Height's discussion of functionality and aesthetic appeal is clearly geared toward the issues in that case, not to the one at hand, and incorporates words which appear to have specifically defined meaning under

(footnote continued)

Applying these principles to the evidence in this case, this Court concludes that the Lego block is wholly functional. The stud and tube system referred to previously not only accommodates the interlocking function as Lego claims, but it "contribute[s] to the effectiveness and performance of the blocks". This is also true of the shape of the block. Simply because other configurations are available or feasible does not render the block non-functional. *American Greetings*, 801 F.2d at 1142.

A product whose shape incorporates both functional and non-functional features may raise conflicting considerations of free competition and trademark protection. In such a case, the courts generally resolve these rival interests by determining whether numerous, equally acceptable alternate configurations are available to competitors. In the case of the Lego 2x4 block, however, alternate configurations are of little legal relevance because the shape of the block does not comprise or incorporate any arbitrary, decorative or other non-utilitarian feature which would raise conflicting considerations. Thus, in this case there are no rival interests to be resolved. Lego argued that functionality can be determined solely on the basis of alternate configurations, without reference to whether the feature is related to the use of the product. However, as explained in *Ideal Toy Corp. v. Plawner Toy Mfg. Corp.*, 685 F.2d 78 (3d Cir. 1982):

> a product feature is functional if it is essential to the use or purpose of the article or if it affects the cost

---

British law. Moreover, Height is not an engineer; his expertise is in design and his conclusions went to the aesthetic appeal of the blocks and elements not to the specific issues in this case.

Exerpts [sic] from the direct testimony and cross-examination in Hong Kong of Richard Grey, Tyco's President, were not considered, nor will exerpts [sic] of the testimony of Donald Martin or Tyco's trial counsel's Hong Kong summation be considered, for the reasons that the subject and meaning of the exerpted [sic] testimony is being taken out of the legal context in which it was offered.

I have admitted and considered in evidence the exerpts [sic] of the deposition testimony of Robert Lurie, submitted by Lego and exerpts [sic] of the deposition testimony of Michael O. Hirtle submitted by both Lego and Tyco.

> or quality of the article . . . . This formulation is congruent with our recent statement that a feature . . . is considered non-functional if "the element of the product serves no purpose other than identification." *SK&F*, 625 F.2d at 1063.

Id. at 81.

Here, the block and its features do serve a purpose other than identification. Thus, the issue of alternate configurations need not be reached.

2. *Alternative Configuration*

Even if the existence of alternate configurations was dispositive, Lego's proofs were insufficient. Lego offered the testimony of Mr. Moller in support of its argument that there are alternate configurations available to Tyco. However, Moller did not deny that the Lego 2x4 block as a whole and in each of its parts is functional within the Third Circuit's definition. Nor did he deny the fact that the arrangement of the various elements of the Lego block is precisely dictated by (and controls) the block's function, so that rearrangement of elements is not possible. Nor did Moller testify that Tyco could as a practical matter have located the Tyco logo more effectively on its own block.

Moller's trial testimony consisted essentially of his claim that Tyco has various other configurations available. He offered some sketches of some different systems which he said could eventually be adjusted to work as well as Lego. However, without incorporating at lest some substantial non-functional elements, the Lego 2x4 block cannot seek the protection of trademark law.

In any case, the standard of utility of proposed alternates is *not* Lego's extraordinary facilities, but what is generally available to *competitors* like Tyco. This follows from the public interest in promoting competition. Tyco had to design its blocks to be completely manufacturable. If Lego's proposed alternates cannot in practice be molded as advantageously by competitors,

then they are not acceptable as alternates, even if Lego could make them.

It must be remembered that Moller's entire experience in block molding was through supervising others at Lego, and was limited to Lego equipment. Moller has never even designed a tool. Tr. 3098. Tyco's Martin, in contrast, has a great deal of experience in designing products and tools which are practical and can be used by outside contractors. Martin designed every Tyco block. Tr. 3318-48. Martin detailed the specific additional difficulties and costs as compared to the simple tubes and studs that would be encountered in trying to design blocks and tools, to manufacture competitively, and to produce blocks of equal function, appearance, durability and cost. In most cases, he testified credibly that the task was not possible; as to the rest, it would at the least be much more difficult and expensive than the present system.

Furthermore, the credible evidence is that in 1983 Martin (and others at Tyco) did consider and reject various alternate configurations. *See, e.g.*, Tr. 3592-3316. The tubes and studs system was the obvious engineering choice. It provides a flexible spring (tube) against an inflexible stud, which is necessary to accommodate manufacturing tolerances and preserve the blocks' function. Also, unlike other designs, the circular tube is pushed inward by the studs into a cloverleaf, so that positioning errors are self-correcting in use, and the engaging surfaces are subject to minimum wear. Finally, simple round tubes and studs are the easiest shapes to manufacture (except for the "hollow" block which is unacceptable in function). Based upon the testimony, I find that such characteristics of round shapes are obvious to a competent engineer, and in 1983, it did not take Martin long to recognize them. Tr. 3599. Indeed, in 1958, Lego recognized the same principles in selecting the three-tube shape over other configurations. PX. 64; Tr. 3248-49.

Lego has not convincingly established that there are numerous acceptable alternates available. As Lego admits, the existence of only a few alternates is insufficient for trademark purposes, because other competitors could still be restricted from entering

the marketplace. Indeed, the owners of Loc Blocs could bring the same type of claim as Lego if Tyco adopted Moller's proposal No. 9, with interior walls. DX D-1, p. 47. Therefore, even if this Court were to conclude that an alternate is acceptable, it would still be an insufficient basis for according trademark protection to the Lego 2x4.

Finally, it has not been demonstrated that the purported confusion would disappear if Tyco did sell a differently shaped block. The 2×4 is only one piece among over 140 different pieces. Lego's past research has shown that consumers describe both the Lego and Loc Blocs products in the same generalized terms, "little pieces", with "bumps" "brightly colored" and so forth. *See* Tyco Br. ¶93, p. 41. There is just no basis for concluding that the enormous burden which would be placed upon Tyco would provide any countervailing benefit to Lego or to the public.

3. *Secondary Meaning and Likelihood of Confusion*

"To establish secondary meaning, a manufacturer must show that, in the minds of the public, the primary significance of a product feature or term is to identify the source of the product rather than the product itself." *Inwood Laboratories*, 456 U.S. 844, 851 n.11 (1982), as quoted in *American Greetings*, 619 F.Supp. at 1221. The court "may consider factors such as length of use, buyer association, extent of sales and advertising and the fact of copying." *Freixenet, S.A. v. Admiral Wine & Liquor Co.*, 148, 731 F.2d 152, (3d Cir. 1984) quoting *Ideal Toy Corp. vs. Plawner Toy Mfg. Corp.*, 685 F.2d 78, 82 (3d Cir. 1982). The plaintiff is "not required to show that the secondary meaning arises solely from non-functional features. Such a requirement would be difficult, if not impossible, to satisfy." *American Greetings*, 807 F.2d at 1144 (specifically declining to adopt language in *General Radio Co.*, 321 F.2d 857 (3d Cir. 1963), that secondary meaning arises solely from non-functional features.) Secondary meaning must attach prior to defendant's entering into the market. *Scott Paper Co. v. Scott's Liquid Gold*, 589 F.2d. 225, 231-32 (3d Cir. 1978)

Secondary meaning in a trademark infringement or unfair competition case is closely related to proof of a likelihood of confusion. *Scott Paper Co.*, 589 F.2d. at 1229. The two concepts are distinct, however. Secondary meaning concerns the connection the consumer makes between the non-infringing party's mark or product and its source. Likelihood of confusion focuses on whether the consumer viewing the product or mark of the allegedly infringing party believes the source of the product is related to the non-infringing party. *National Football League Properties v. N.J. Giants*, 637 F. Supp. at 516, n.5. Thus, "[l]ikelihood of confusion exists when consumers viewing the mark would probably assume that the product or service it represents is associated with the source of a different product or service identified by a similar mark." *Scott Paper*, 589 F.2d at 1229. "[R]egardless of how much secondary meaning it possesses, a [product] will not be protected from an imitator that is sufficiently different in its features to avoid such confusion." *Freixenet*, 731 F.2d at 151.

The factors enunciated by the Third Circuit to be considered in making a likelihood of confusion determination include the following:

> (1) the degree of similarity between the owner's [product] and the allegedly infringing [product]; (2) the strength of owner's [product appearance]; (3) the price of the goods and other factors indicative of the care and attention expected of consumers when making a purchase; (4) the length of time the defendant has used the [product] without evidence of actual confusion arising; (5) the intent of defendant in adopting the [product appearance] (6) the evidence of actual confusion; . . . (8) the extent to which the targets of the parties' sales efforts are the same; (9) the relationship of the goods in the finds [sic] of the public because of the similarity of function; (10) other facts suggesting that the consuming public might expect the prior owner to manufacture a product in the defendant's market.

Id.

4. *The Lipstein Survey*

As noted previously, "in trademark and unfair competition litigation, the results of properly designed and executed consumer surveys have been consistently accepted by the courts as probative evidence on the issue of likelihood of confusion" as to source or sponsorship of the product. *National Football League Properties v. N.J. Giants*, 637 F.Supp. at 513.

Lego introduced a study by Dr. Benjamin Lipstein ("the block study") in support of its claim that the Lego block design has acquired a secondary meaning and that consumers are confused by Tyco's copy of the Lego block.[11] As previously noted, properly conducted surveys, those characterized by the factors set forth in *Pittsburgh Press Club*, 579 F.2d at 758, are admissible as evidence in this Circuit. *American Home Products*, 656 F.Supp. at 1062. It is well settled that alleged defects in a survey generally go to its weight, not admissibilty [sic], *United States v. 88 Cases, etc.*, 187 F.2d 967 (3d Cir.), *cert. denied*, 342 U.S. 861 (1951); *Squirtco v. Seven-up Co.*, 628 F.2d 1086 (8th Cir. 1980); *Jellibeans, Inc. v. Skating Clubs of Georgia, Inc.*, 716 F.2d 833, 845 (11th Cir. 1983), so long as the defects are not such as to render the entire survey of no evidentiary use.

The study was designed by Dr. Benjamin Lipstein who was deposed, (portions of his deposition were offered at trial), but was unable to testify at trial due to illness. Dr. Lipstein produced a report which was not in evidence, but which was reviewed by Dr. Theodore Dunn, who executed the Lipstein survey. The survey results and the report were also reviewed by Dr. Jacob Jacoby who testified as Lego's expert in Dr. Lipstein's absence.

In the Lipstein survey, responses were received from one thousand individuals as a sample representative a universe [sic] defined

---

[11] The survey was also introduced to show likelihood of confusion.

as "women either having children under the age of 14 or having purchased at sometime previously, ever purchased [sic] construction toys or intend to purchase [sic] same over the next 12 month period, and living within the 48 contiguous United States. (Tr. 2693).

Tyco, in support of its argument that the Lipstein survey was inadmissible, offered the testimony of Dr. Andre Kulley and Mr. Alfred Vogel of Response Analysis Corporation.

Kulley and Vogel criticized the survey results on the grounds that the universe was not properly defined, that the proposed findings are not projectable, that the survey was not properly implemented, that the authors of the study were not provided with prior Lego market research, that the sample was improper, that because the responses were not recorded verbatim the survey evidence is inadmissible as hearsay under Fed.R.Evid. 803, and that the study is meaningless because all that is in evidence is raw data — not statistical results.

The objection that the survey is inadmissible hearsay is unfounded. Not only is it well settled that survey evidence of a properly conducted survey is not inadmissible as hearsay, *McCarthy, Trademarks and Unfair Competition*, §32:49 at 772-73 (2d ed. 1984), but Fed.R.Evid. 703 provides independent grounds for admissibility.

"[T]he results of any survey research are open to -- even invite -- challenge by way of competing experts. . . ." *Harlequin Enterprises Ltd. v. Gulf & Western Corp.*, 503 F.Supp. 647, 650 (S.D.N.Y. 1980), *aff'd*, 646 F.2d 949 (2d Cir. 1981). However, as noted previously, " 'it is relatively easy for one ad expert to criticize a survey done by another expert.' " *U-Haul International, Inc. v. Jartran, Inc.*, 522 F.Supp. 1238, 1252 (D. Ariz. 1981), aff'd, 681 F.2d 1159 (9th Cir. 1982); *See also* 2 *McCarthy, Trademarks and Unfair Competition* (2d ed. 1984) §32:50 at 779 ("It is notoriously easy for one expert to appear to tear apart the methodology of a survey taken by another. However, one must keep in mind that there is no such thing as a 'perfect'

survey.") In the *U-Haul* case, the criticism was given no weight, especially since, as here, the critic had done no survey of his own to support his arguments. Here, neither Dr. Kulley nor Mr. Vogel had done any survey or other research of his own to support his arguments. Both witnesses acknowledged they had no competing data to show that the results of the Lipstein block study -- despite any alleged flaws -- were incorrect.

The thrust of Dr. Kulley's criticism of the survey was that because of flaws in the design and execution of the Lipstein sample -- that is, that method by which the respondents were chosen -- the results of these 1,000 interviews could not be "projected" purchasers. Dr. Kulley testified that, therefore, no inference could be drawn that the universe would react to the questions in the same proportion as the sample of 1,000 respondents did. Specifically, Dr. Kulley criticized technical flaws in the survey. He testified that the method used in randomly choosing cities led to a bias against large cities. However, the sample did include Washington, D.C., Boston, Dallas, and Denver, (D.Ex I-1, app. 6. p.1.). Further Dr. Kulley criticized the study for errors in implementing the study. Both Dr. Dunn and Jacoby acknowledged that errors had been made. (Tr. 2497-2501, 2715). Dr. Kulley was unable to demonstrate in any way how these technical flaws could have affected the answers to the questions, and I find that these errors did not have any impact on the results.

Dr. Kulley's assertion that the survey is not projectable was also contradicted by both Dr. Dunn and Dr. Jacoby. Dr. Dunn testified that he had personally used the same sampling method many times in his career, (Tr. 2454, 2455, 2456-7), that other market research firms use it, (Tr. 2507-8), and that important business decisions are made based on research that uses this method. (Tr. 2456). Dr. Jacoby testified that, despite its flaws, the Lipstein sample design was projectable research, (Tr. 2693-94), and was more sophisticated than 95% of all market research, including research conducted for litigation. (Tr. 2711-16). For example, in contrast to the 1,000 interviews among randomly chosen women in 29 randomly chosen cities used in

the study, many studies are are [sic] conducted in shopping malls and based on far fewer interviews in fewer cities. Moreover, shopping mall surveys by their very nature do not permit random selection of respondents because they are limited to people who visit malls and the respondents are selected at the discretion of the interviewer, not by a random process.

Mall intercept studies have been accepted by this court and others, despite their lack of projectability. For example, in *National Football League Properties, Inc. v. New Jersey Giants, Inc.*, supra, the court held that non-probability samples were admissible, and relied on such a survey conducted in four shopping malls. The court said:

> By conducting the study in four separate shopping malls...the proponents of the survey tested a representative sample of the relevant universe ... Indeed, ninety-five percent of all consumer market research conducted by personal interviews is tested by mall intercept studies. The results of these studies are used by major American companies in making decisions of considerable consequence.
>
> [A] non-probability survey, such as the survey in this case, is sufficiently reliable to be admitted into evidence and accorded substantial weight, *Boehringer Ingelheim v. Pharmadyne Laboratories*, 532 F.Supp. 1040, 1053-54 (D.N.J. 1980), and non-probability survey evidence has been accepted by courts in many trademark and unfair competition cases. *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 619 F.Supp. 1204, 1215-16, 1224 (D.N.J. 1985) [further citations omitted]

637 F.Supp. at 514-15, 518.

Accordingly, I conclude that the Lipstein survey is admissible in evidence, and will determine separately the weight to be accorded both the block study and the box study.

a. *The "block study"*

In the "block study", respondents were asked to identify the brand of each of five blocks (Tyco, Tente, Torro, Loc Bloc and Edu Bric). The respondents were not shown a Lego block. The blocks were all white, and they were shown to the respondents one at a time. Half were shown the Tyco block with the Tyco name on it and half were shown the Tyco block without the Tyco name on it. Almost 50% of respondents identified the Tyco block as Lego; 44% did so even when the Tyco name was on the block. This level of confusion was twice that of any other block in the survey. The conclusion of the block study is that the public can and does distinguish among blocks based on appearance -- except when it comes to those of Tyco and Lego.

In spite of the Kulley-Vogel criticism, Lego established that the questions it used in the block study were patterned after questions which have been accepted by the courts.

In the block study, after being asked to identify the manufacturer of each block, the number of confused respondents was four and one-half times greater than the number who correctly identified the Tyco block. However, a fundamental problem with the block study is that it almost encouraged the respondents to misidentify the Tyco block as a Lego block, because no Lego block was included. The parties concede that Lego is the most well known brand name of this type of connecting building blocks and has enormous penetration of the marketplace. "Tyco Super Blocks" and "Loc Blocs" were much less known, and the manufacturer [sic] of the other three blocks were essentially unknown.

The focal question of the block study was delivered by the interviewer as follows:

> "I'm going to show you a number of building blocks used by children and I'm going to ask you if you can tell me the brand name of each one.
>
> What do you think is the brand name of this block?"

It must be expected that the respondents would tend to assume that one of the blocks was a Lego block – the brand most familiar. Because the Tyco 2×4 looks most like the Lego block, the Tyco block would be most frequently selected as Lego by the respondents who were looking for Lego. Moreover, based upon the evidence, I conclude that the white block used is the most difficult color on which to read the Tyco name imprint.

The above discussion demonstrates the fact that Lego has acquired secondary meaning. It does not demonstrate that in the "real world" any consumer is being confused. It means only that, in the context of the interview, the respondents expected to find a Lego block.

Lego also offered a study conducted for Tyco by Brown, Koff & Fried, ("the Koff study"), in further support of its claim that there is a strong likelihood of confusion. I agree that this study does lend support to Lego's claims. In the Koff study, the respondents were presented with a "sort board" with the names of five brands of blocks, (Lego, Loc Bloc, Tente, Torro, Tyco). They were then presented with five blocks corresponding to those brand names and asked to place each block under the name of the manufacturer who they thought made the block. Plaintiff's Exhibit 207 at 5. Eighty-six percent of the respondents correctly identified the Lego block with Lego. *Id.* at 5. Twenty-seven percent of respondents misidentified the Tyco block as Lego – nearly twice the level of misidentification of any other block with Lego. Id. Moreover, when the respondents were asked whether any of the companies on the sort board were related, twice as many thought Tyco and Lego were related as any other two companies. *Id.* at 8.

However, the Koff study was not without its flaws. The respondents were not allowed to reply that they did not know who manufactured the block, nor were they allowed to put a block under more than one name. Thus, in essence the respondents were required to put all blocks under the name of a manufacturer whether or not they had any idea who that manufacturer was.

Here, the Lipstein study followed a format which has been accepted in other courts and which may be relied upon as evidence of secondary meaning, as well as likelihood of confusion. Tyco's specific criticisms however cast the results in doubt. Although Tyco does not suggest that the results are inaccurate or that a survey meeting all of their experts' criteria would produce a different result, this Court concludes that the Lipstein block study was not conclusive evidence of confusion between Tyco and Lego blocks in the marketplace. Accordingly, it is the finding of this Court that the 2x4 block in question is functional, that the block had acquired some secondary meaning, but that this is insufficient evidence of confusion. Tyco will not be required to take any steps to alter their production of the 2x4 block. *American Greetings*, 807 F.2d at 114.

B. *Use of the Lego trademark on the Tyco Package*

Count IV of Lego's counterclaim is directed to Tyco's use of the word "Lego", its registered trademark, on Tyco's packaging. Lego argues that Tyco's unauthorized use of the Lego mark violates section 32(i) of the Lanham Act, 15 U.S.C. § 1114(i).

Tyco has referred to the Lego mark prominently in the "bullet" on all its packaging. The bullet appears about three times on each Tyco package. Tyco does state on its packaging that "Lego is a registered trademark of Interlego A.G.", but does not explain that Tyco is not connected in any way to Lego.

1. *Entitlement to use of a competitor's trademark.*

"[W]hether one is entitled to refer to a competitor's trademark depends not on where the reference appears, but on whether the reference is truthful." *G.D. Searle & Co. v. Hudson Pharmaceutical Corp.*, 715 F.2d 837, 843 (3d Cir. 1983). Thus, "[t]he use of a competitor's trademark for purposes of comparative advertising is not trademark infringement 'so long as it does not contain misrepresentations or create a reasonable likelihood that purchasers will be confused as to the source, identity or sponsorship of the advertiser's product.' " *Id.* at 841, *quoting SSP*

Agricultural, Etc. v. Orchard-Rite Ltd., 592 F.2d 1096, 1103 (9th Cir. 1979).

Lego does not dispute that Tyco may use the Lego trademark on its packaging, but it does assert that "[a] truthful comparative reference. . . is permissible only if it is no more prominent than necessary to convey truthful information and only if it is accompanied by a disclaimer of affiliation of equal prominence."

Tyco's use of the Lego mark is in letters of the same size, print, style and prominence as the surrounding text and is accompanied with proper identification. There has been no attempt by Tyco at any time to employ the logo or colors used by Lego for the display of its mark.

In *G.D. Searle & Co.*, the Court termed "particularly instructive" the Second Circuit Court's articulation of the controlling legal principles in an advertising claim in the case of *Societe Comptoir de L'Industrie v. Alexander's Department Stores, Inc.*, 299 F.2d 33 (2d Cir. 1962); *G.D. Searle & Co.*, 715 F.2d at 842.

In *Societe Comptoir*, plaintiffs were a group of foreign and domestic corporations doing business under the registered marks "Dior" and "Christian Dior." Alexander's, the owner of a retail discount department store, used the names "Dior" and "Christian Dior" extensively to promote the sale of garments copied from original creations designed by the House of Dior. The Court noted that the merchandise was described on hangtags attached to the garments which read: "original by Christian Dior-Alexander's Exclusive-Paris-Adaption". There was also a singing commercial that did not even use the word "adaption." Plaintiffs sought to enjoin defendant's use of the Dior name. The Second Circuit affirmed the district court's two denials of applications for preliminary injunction. As explained by the Court of Appeals:

> Registration bestows upon the owner of the mark the limited right to protect his goodwill from possible harm by those uses of another as may engender a belief in the mind of the public that the product identified

> by the infringing mark is made or sponsored by the owner of the mark. . .The Lanham Act does not prohibit a commercial rival's truthfully denominating his goods a copy of a design in the public domain, though he uses the name of the designer to do so. Indeed, it is difficult to see any other means that might be employed to inform the consuming public of the true origin of the design. [citatioans omitted]

299 F.2d at 36.

The court concluded:

> Involved in the instant case is a conflict of values which necesarily [sic] arises in an economy characterized by competition and private property. The courts have come to recognize the true nature of the considerations often involved in efforts to extend protection of common law trade names so as to create a shield against competition. *Standard Brands v. Smidler*, 151 F.2d 34, 41 (2d Cir. 1945) (concurring opinion, Frank, C.J.). The interest of the consumer here in competititve [sic] prices of garments using Dior designs without deception as to origin, is at least as great as the interest of plaintiffs in monopolizing the name.

299 F.2d at 37.

In *Prestonettes v. Coty*, 264 U.S. 359 (1924), the Supreme Court decided that the Court of Appeals' issuance of an absolute preliminary injunction against the use of Coty's marks except on the original packages went too far. The Supreme Court stated that:

> A trademark only gives the right to prohibit the use of it so far as to protect the owner's goodwill against the sale of another's product as his. . . When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth. It is not taboo.

264 U.S. at 368 (citations omitted). The Court observed that confusion caused by the defendant's use of the plaintiff's mark would be minimized if the reference was not printed in different letters from the rest of the inscription.

Tyco's packaging does comply with the suggestion of the Supreme Court in that the Lego mark appears in the same size, color, type and general distinctiveness as the surrounding text. No attempt has been made to employ the style of the Lego trademark or otherwise detract from the dominance of the Tyco mark on the packaging.

2. *The Lipstein "box study"*

In the "box study," the respondents were shown Tyco set No. 5210 and were asked to identify the manufacturer of the toy. Over 18% identified Lego as the manufacturer. In total, 28.8% of respondents either thought that the Tyco product was made by Lego, or thought that the maker of the Tyco product also made Lego products. No other Tyco package, including the Tyco bucket, nor any Lego or competitor's packages were shown to the respondents. The conclusion of the box study is that, to a significant degree, people derive an erroneous impression from the package used that the manufacturer of the Tyco product either is Lego or is associated with Lego.

Lego offered the second part of the Lipstein survey, the box study, in support of its claim that Tyco's use of the Lego trademark on its packaging creates a likelihood of confusion. Although, as noted previously, I find that Tyco's general objections to the Lipstein survey concerning the projectability of the results, the make-up of the universe, the use of the sample and the coding of the responses are not substantial and do not affect the admissibility of the survey, I do find that Tyco's objections to the wording of the questions in the box study, the "Grant's tomb effect" (Tr. 4216-17) and the limited scope of the box study are substantial. Therefore, although admissible, I give little weight to the box study in my conclusions as to likelihood of confusion arising out of Tyco's packaging.

Tyco's expert, Mr. Vogel, testified that since the box "has Tyco all over it" (Tr. 4216), asking the respondents to name the manufacturer encourages them to guess at some name other than the obvious choice; it is like asking someone "Who is buried in Grant's Tomb." (Tr. 4215-4216). The answer seems so obvious that the respondent assumes a different answer is being solicited. That such an effect was influencing the tabulated results is indicated by the fact that only 55% of the respondents correctly identified the manufacturer as Tyco, even though the name is so plain on the box. Like the answerer of the Grant's Tomb joke, the respondent has a strong tendency not to answer with the obvious.

Lego at trial claimed that the questionnaire was not analogous because the joke contained the answer, "Grant," while the question did not. However, the required display of the box by the questioner just prior to asking the question provides the information visually, and indeed reinforces it.

Even so, only 18% misidentified the Tyco box as Lego. Moreover, as Lego points out, 62% of this 18%, or 12% of the total, did so on the basis of "product appearance". Defts. Br. pp. 23-24. The survey did not identify this "product" as the 2x4 block, or as the package. Both the illustrations of projects and the package window display many pieces and elements other than the 2x4. Since Lego does not contest Tyco's right to manufacture and sell any of these other pieces, Lego cannot complain about Tyco displaying them in a normal manner.

Thus, the box study tabulations purport to display a confusion level of only 6% (18% minus 12%) attributable to packaging elements other than the display of products which Tyco admittedly has the right to display. I find that six percent is an insufficient level of alleged confusion to support Lego's claims against Tyco.

Question 9 of the box study appears to increase the percentages of supposed Lego "misidentification." Lego claims the tabulated results show 10% more "confusion" by reason of the answers to Question 9, giving a grand total of 28%, (18% plus 10%). However, Question 9 can give no insight at all into Tyco's

packaging because the question itself does not request information about the package. Question 9 asks,

> Do you have a belief as to whether or not the maker of this product makes any other brand or brands of products?

Due to the way the question is asked, the source of a respondent's "belief" could be anything, whether or not related to the box.

Whenever Tyco uses the "Lego" trademark on its packaging, the "Lego" trademark is presented in a fashion that does not make it stand out from the surrounding text. A prospective customer who sees the "Lego" trademark, sees it in the context of the claim in the bullet on the packaging that is dominated by the "Tyco" logo.

That Tyco's packaging embodies this strategy was specifically recognized by the only packaging expert to testify, Dr. Goldberg. Dr. Goldberg was Tyco's expert on analysis of consumer impressions of toy packaging. Lego offered no testimony to contradict Goldberg's findings. He testified that the dominant element of each package is the word Tyco. The second most prominent element of the package is the name of the product emblazoned with exceptional boldness diagonally across the front and four sides of the package. Indeed, the evidence was, and I so find, that the package is made unusually distinctive to enable the consumer to locate the Tyco product amidst the "sea of Lego" present in most large toy stores. The remaining elements of the Tyco box, e.g. its size and shape, use of windows and illustrations of projects, are common in the industry and are not exclusive to Lego. Indeed, even Tyco's angular windows are different than Lego's, which are usually square and covered by a flap. Tyco's references to Lego blocks are not uncommon and constitute "fair use" of the Lego trademark. Reference is necessary in order to inform the numerous owners of Lego blocks of an important attribute of Tyco's product.

Finally, more than half of Tyco's sales by volume are in buckets, which Lego doesn't offer. The buckets were not made

a part of the Lipstein study. This omission creates further doubt as to the significance of the results of the box study.

C. *Relief Granted*

This Court finds that Tyco creates confusion on its packaging because of its failure to accompany its reference to Lego with a notation that Lego is a company unrelated to Tyco.

Consistent with these findings, an order will be entered directing that Tyco henceforth indicate in its bullet, in connection with the use of the Lego trademark, that Lego is not connected to Tyco, in order to minimize confusion as to the manufacturer of the Tyco Super Blocks. All other requested relief is denied.

Counsel for Lego is hereby directed to submit to this Court and to opposing counsel within 20 days from this date, a form of order consistent with the above findings and conclusions. Should counsel for Tyco have any objections to the form of said order, such objections shall be submitted to the Court and opposing counsel no later than 10 days after receipt of Lego's proposed form of order. The Court will rule on any such objections under Rule 78 Fed.R.Civ.P. without oral argument.

GARRETT E. BROWN, JR., U.S.D.J. Dated: 8/24/87

ORDER OF THE DISTRICT COURT

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

TYCO INDUSTRIES, INC.,	:	
Plaintiff,	:	CIVIL NO. 84-3201 (GEB)
vs.		
LEGO SYSTEMS, INC., and INTERLEGO, A.G.,	:	ORDER
Defendants.	:	

This civil action, having been tried to the court without a jury, and the court, pursuant to Rule 52 Fed.R.Civ.P., having on August 26, 1987 filed its opinion incorporating its Findings of Fact and Conclusions of Law;

Now, therefore, it is ORDERED, ADJUDGED AND DECREED as follows:

1. Plaintiff Tyco, its officers, employees, agents, attorneys, successors and assigns, and all persons in active concert or participation with them, and each of them, having direct or indirect notice of this order, are hereby permanently enjoined, in connection with the sale or offering for sale of Tyco Super Blocks and Tyco Pre-School Supers blocks ("Tyco"), whether orally or in any documents or material distributed or intended for distribution to the public, to the trade, or to the media (including but not limited to advertisements, packaging, promotional materials, signs, photos, brochures, package inserts, trade show displays, price lists, press releases, or material submitted to advertising agencies) from:

2. stating or suggesting that:

a. the number, size and kinds of pieces in Tyco are the same as or similar to these Lego sets if they are not;

b. Tyco pieces are the same as or similar to Lego pieces if they are not;

c. Tyco or Lego standard size pieces connect to Tyco Pre-School Super Blocks when an adapter block is required to effect such connection on the top, without also stating in words of equal prominence that such connection is accomplished "with adapter block provided within" or words of similar import;

d. the prices of Tyco sets are lower than those of Lego sets where the contents of such sets are not comparable as to size and kinds of pieces;

e. that Tyco blocks "feel like" Lego blocks;

f. that Tyco blocks "look like" Lego blocks unless such reference is to Tyco and Lego pieces which in fact look alike; and

g. "if you can't tell the difference, why pay the difference," in referring to Lego and Tyco sets.

3. In any claims comparing Lego and Tyco pieces, comparing Lego and Tyco sets, the contents of Lego and Tyco sets, or comparing the prices of Lego and Tyco sets or pieces, Tyco shall identify the pieces or sets being compared, and shall disclose in a manner calculated to give reasonable notice to the viewer that the pieces contained in the sets being compared differ in number, type or function, as applicable. In making such comparisons, Tyco shall not suggest that all Tyco and Lego pieces and sets are equivalent or interchangeable.

4. Where Tyco is required by any provision hereof to "disclose", "identify", or "include", it shall do so in a manner calculated to give reasonable notice to the viewer.

5. Tyco shall on each package of its Tyco Super Blocks and Tyco Pre-School Super Blocks display on each face which displays any trademark of Interlego, in type at least as large as 6 point, the following legend: "*[such trademark] is a registered trademark of Interlego, A.G., which is not related to Tyco in any way." Alternatively, Tyco shall display at such locations and in such type size both of the following legends, in reasonable proximity to each other and to said trademark: "[Such trademark] is a registered trademark of Interlego, A.G." and "Lego is not related in any way to Tyco." Each display of a Lego trademark on a Tyco package shall be e [sic] accompanied by an asterisk referring to the above-specified legend.

6. Except as set forth above, all of the parties claims, including defendants' counterclaim, for infringement of a common law trademark in the configuration of its 2×4 block, are dismissed.

7. Plaintiff shall, 22 days of the entry of this order [sic], pursuant to Section 36 of the Lanham Act, destroy or deliver up to defendant's counsel for destruction, all labels, signs, prints, packages, wrappers, receptacles and advertisements in its possession or under its control which are not in compliance with this order. Plaintiff may ship noncomplying packaging within said 21 day period.

8. Plaintiff shall, within 45 days of the date of this order, pursuant to Section 34 of the Lanham Act, file with the Court, and serve on Defendant's counsel a report in writing under oath, setting forth in detail the manner and form in which the plaintiff has complied with this order.

9. Motions, if any, relating to awarding costs and attorney's fees, shall be filed within 20 days of the date of the entry of this order.

10. Defendants' motion to compel plaintiff to engage in corrective advertising is denied.

November 6, 1987

/s/ Garrett E. Brown, Jr.

GARRETT E. BROWN, JR., U.S.D.J.

ORDER OF THE COURT OF APPEALS

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 87-5845

TYCO INDUSTRIES, INC.

v.

LEGO SYSTEMS, INC., and INTERLEGO, A.G.,

Appellants

On Appeal From the United States District Court
for the District of New Jersey – Trenton
(D. C. Civil No. 84-3201)

District Judge: Honorable Garrett E. Brown, Jr.

Argued May 31, 1988

Before: SEITZ, SLOVITER and HUTCHINSON, *Circuit Judges.*

JUDGMENT ORDER

After consideration of the contentions raised by appellants, and essentially for the reasons given by the district court, it is

ADJUDGED AND ORDERED that the judgment of the district court be and is hereby affirmed.

Costs taxed against appellants.

By the Court,

/s/ Seitz

Circuit Judge

ATTEST:

/s/ Sally Mrvos

DATED: JUNE 2, 1988 Sally Mrvos, Clerk

ORDER OF THE COURT OF APPEALS ON REHEARING

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 87-5845

TYCO INDUSTRIES, INC.

v.

LEGO SYSTEMS, INC., and INTERLEGO, A.G.,

Appellants

On Appeal From the United States District Court
for the District of New Jersey – Trenton
(D. C. Civil No. 84-3201)

SUR PETITION FOR REHEARING

Present: GIBBONS, *Chief Judge*, SEITZ, HIGGINBOTHAM, SLOVITER, BECKER, STAPLETON, MANSMANN, GREENBERG, HUTCHINSON, SCIRICA, and COWEN, *Circuit Judges*.

The petition for rehearing filed by appellants, Lego Systems, Inc., and Interlego, A.G., in the above captioned matter having been submitted to the judges who participated in the decision of this court and to all the other available circuit judges of the circuit in regular active service, and no judge who concurred in the decision having asked for rehearing, and a majority of the circuit judges of the circuit in regular active service not having voted for rehearing by the court in banc, the petition for rehearing is denied.

By the Court,

/s/ Seitz
Circuit Judge

DATED: JULY 1, 1988

Supreme Court, U.S.
FILED
OCT 26 1988
JOSEPH F. SPANIOL, JR.
CLERK

No. 88-503

IN THE

Supreme Court of the United States

OCTOBER TERM, 1988

LEGO SYSTEMS, INC. and INTERLEGO, A.G.,

Petitioners,

vs.

TYCO INDUSTRIES, INC.,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION

J. LAWRENCE BLADES
Counsel of Record
MYERSON & KUHN
Attorneys for Respondent
237 Park Avenue
New York, New York 10017
(212) 599-6000

26 pp

QUESTIONS PRESENTED

Lego seeks review of the judgment of the District Court, unanimously affirmed without opinion by the Third Circuit, which refused to accord trademark status to the configuration of one of the toy blocks contained in Lego toy construction sets. The District Court determined upon voluminous trial evidence that the shape of the Lego block is dictated entirely by its function and, further, that there are *no* acceptable alternative configurations available to Respondent or other competitors. Lego does not allege that these findings of fact are clearly erroneous.

Each of Lego's numerous "Questions Presented for Review" erroneously assumes that the Court did not consider evidence presented with respect to the "effect on competition" which would ensue from judicial recognition of the claimed configuration trademark. Lego also incorrectly asserts that the Third Circuit is in conflict with other Circuits by purportedly restricting its functionality inquiry to the "utility" of the product's features, without any consideration of "effect on competition." Therefore, pursuant to Supreme Court Rule 34.2, Respondent Tyco Industries, Inc. amends Lego's Questions Presented as follows:

1. Do the factual determinations by the District Court that: (i) the shape of a product is entirely dictated by its function; (ii) that there are no acceptable alternative configurations available to competitors; (iii) that in any event there are an insufficient number of alternatives available to competitors; and (iv) that there is no basis in the Record for concluding that changing the shape of the competing product would alleviate any purported confusion, constitute sufficient grounds to refuse to accord trademark status to that product configuration?

2. Are there substantive conflicts among the Circuits in hamonizing the policies of promoting competition and protecting configuration trademarks

where, as here, it has been established that there are no acceptable alternative configurations available to competitors?

3. Is the grant of a Writ of Certiorari appropriate where the Petitioner does not seek to review the separate judicial determination that there was insufficient evidence of likelihood of confusion caused by the shape of the block, which is an independent prerequisite for obtaining the relief Petitioner now seeks?

RULE 28.1 STATEMENT

Respondent Tyco Industries, Inc. advises that its parents are Tyco Acquisition Corp. and Tyco Toys, Inc.; it has no subsidiaries that are not wholly owned; and its affiliates are TNI, Inc. and Nasta International, Inc.

TABLE OF CONTENTS

	Page
QUESTIONS PRESENTED	i
RULE 28.1. STATEMENT	iii
TABLE OF CONTENTS	iv
TABLE OF AUTHORITIES	vi
STATEMENT OF THE CASE	1
Introduction	1
Facts	2
THE PETITION SHOULD BE DENIED	6
I. THE DISTRICT COURT DETERMINATION THAT NO SATISFACTORY ALTERNATIVES EXIST IS DISPOSITIVE	6
A. The Lego Block Is Wholly Functional	6
B. There Are No Acceptable Alternative Configurations	9
C. The Court's Determination Was *Not* Founded Upon A Standard Of Compatibility With Lego Blocks	10
D. There Are An Insufficient Number of Acceptable Alternatives	11
E. Effect On Competition May Be Determined By Alternative Configurations	12

Page

II. LEGO'S LEGAL THEORIES ARE UNTENABLE 14

A. The Circuits Are Not In Substantial Conflict Over The Issues Raised By The Record Herein 14

B. Lego's "Advancement" Theory is Impractical 15

C. This Court Should Be Especially Cautious In Reviewing The Determination Of The Lower Courts 15

III. LEGO'S FAILURE TO ADDUCE SUFFICIENT EVIDENCE OF CONFUSION IS AN INDEPENDENT GROUND TO DENY THE RELIEF SOUGHT IN THE PETITION 17

CONCLUSION 18

TABLE OF AUTHORITIES

Cases	Page
American Greetings Corp. v. Dan-Dee Imports, Inc., 807 F.2d 1136 (3d Cir. 1986)	6
In re Bose Corp., 772 F.2d 866 (Federal Cir. 1985)	8, 11, 12, 13, 15
Brandir Int'l, Inc. v. Cascade Pacific Lumber Co., 834 F.2d 1142 (2d Cir. 1987)	12
CIBA-GEIGY Corp. v. Bolar Pharmaceutical Co., 747 F.2d 844 (3d Cir. 1984), *cert. denied*, 471 U.S. 1137 (1985)	13
In re Deister Concentrator Co., Inc., 289 F.2d 496 (C.C.P.A. 1961)	16
Ideal Toy Corp. v. Plawner Toy Mfg. Corp., 685 F.2d 78 (3d Cir. 1982)	13
Keene Corp. v. Paraflex Industries, Inc., 653 F.2d 822 (3d Cir. 1981)	11, 13
In re Morton Norwich Products, Inc., 671 F.2d 1332 (C.C.P.A. 1982)	8, 12, 13
Scott Paper Co. v. Scott's Liquid Gold, 589 F.2d 225 (3d Cir. 1978)	17
Sears, Roebuck & Co., v. Stiffel Co., 376 U.S. 225 (1964)	16
Sicilia di R. Biebow & Co. v. Cox, 732 F.2d 417 (5th Cir. 1984)	7, 13
Standard Terry Mills, Inc. v. Shen Mfg. Co., 803 F.2d 778 (3d Cir. 1986)	8, 13, 15

Page

Stormy Clime Ltd. v. ProGroup, Inc., 809 F.2d 971 (2d Cir. 1987) 8, 14, 16

Time Mechanisms, Inc. v. Qonaar Corp., 442 F. Supp. 905 (D.N.J. 1976) 13

United States Golf Ass'n v. St. Andrews Systems, Inc., 749 F.2d 1028 (3d Cir. 1984) 6

W.T. Rogers Co. v. Keene, 778 F.2d 334 (7th Cir. 1985) 7, 8

Constitutional Provisions

U.S. Const. Art. I, § 8, Cl. 8 14

Statutes and Rules

Fed. R. Civ. Pro 52(b) 13

15 U.S.C. § 1125(a) 14

35 U.S.C. §§ 154, 173 14

No. 88-503

IN THE

Supreme Court of the United States

OCTOBER TERM, 1988

LEGO SYSTEMS, INC. and INTERLEGO, A.G.,

Petitioners,

v.

TYCO INDUSTRIES, INC.,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION

STATEMENT OF THE CASE

Introduction

This case involved an attempt by Lego, the predominant marketer of plastic toy blocks in the United States, to recover its former monopoly in the shape of the critical toy block used in toy building block sets. Lego claimed that, during the years of its patent monopoly, it had developed a trademark in the configuration of that block. The lower courts roundly rejected such an attempt, upon evidence that the block's configuration was entirely functional and was superior to the alternatives available to competitors for reasons of performance, appearance, durability, cost and manufacture.

Lego contends in its Petition that the lower courts erred in purportedly failing to consider effects on competition by restricting judicial inquiry to the utility of the block's features. Further, Lego urges that a new standard of "superiority" or "advancement" should be adopted which would limit free competition solely to those configurations which are clear improvements upon any other configurations available to competitors.

Lego's legal theories are untenable because their factual premises are in error. In addition, the Opinion of the District Court makes it clear that Lego cannot prevail under *any* theory, because the Opinion firmly establishes that Respondent and others have no sufficient substitute with which they could compete effectively with Lego, the giant of the industry. The Petition should therefore be denied.

Facts

The so-called "2x4" block at issue is only one among dozens of other block shapes, and hundreds of other types of pieces contained in Lego and other building sets. However, the 2x4 block is the key; it is the fundamental block from whose dimensions, matrix and physical characteristics the other blocks and pieces were developed.[1] The 2x4 block and other pieces interconnect in various ways with pieces in the same set as well as with pieces in other Lego sets. The sets are marketed and sold as a progression which gradually increases in complexity, so that as the child gets older, additional sets will be purchased and added to his or her collection, all of which can then be used together.[2] As a result, approximately 80% of all Lego sales in the United States are repeat sales to consumers who already own Lego sets.[3]

---

[1] R.A. at 41-42; *see* Opinion, A.3-5. (Hereinafter, references to the Record Appendices are "R.A. __" or "R.AA. __." References to the District Court Opinion, reproduced in the Petition Appendix, are "Opinion, A. __.")

[2] R.A.41-42; *see* Opinion, A.3-5.

[3] R.AA.225-27a, 593-94, 1661 and 1666.

In 1958, when designing the round-tube-and-stud system of its present 2x4 block, Lego also considered and rejected as inferior various alternative configurations. In 1961, Lego obtained a U.S. patent on its system, as well as on several of the other, inferior systems. The patent clearly illustrates the obvious fact that every feature of the 2x4 block exists to serve its interlocking and building functions.[4]

Lego now repeatedly but erroneously asserts that the dimensions of the 2x4 block are "arbitrary" and that neither Tyco nor the District Court considered the block's shape to be "inherently superior" to other possible methods of interconnection, or "essential" to the block's design.[5] On the contrary, the Court specifically determined on the basis of the "credible evidence" that when Lego designed its 2x4 block, Lego selected the configuration at issue precisely *because* it is superior to the alternatives. Indeed, its superiority over the alternatives was found to be "obvious to the competent engineer" for reasons of function, appearance, durability, cost and/or manufacture.[6] See Point I, *infra*, at pp. 6-13. Lego's statements in the Petition are merely wishful re-assertions of its unsuccessful evidentiary presentation at trial.

In 1983, Lego enjoyed a virtual monopoly in the field.[7] Approximately 40% of all families in the United States with children under 15 years of age already owned Lego products.[8] Since 80% of these consumers were repeat buyers, they would

---

[4] Opinion, A.37; Patent, R.A.1464.

[5] Petition, at 4, 5, 6, 17, 18, etc.

[6] Opinion, A.37. Moreover, even the overall dimensions of the block are not "arbitrary"; they are selected to be an appropriate size for children's hands. Most of the alternative blocks received in evidence were about the same dimensions as the Lego 2x4, even though not compatible with Lego.

[7] From 1983 to the present, Lego has still held a "commanding" lead in the sales of plastic toy blocks, far exceeding the sales of all other brands combined. Opinion, A.5. In 1984-85, the first two years of competition with Respondent Tyco, Lego's U.S. sales skyrocketed to records of $59 million and $70 million.

[8] Opinion, A.5.

naturally tend to prefer to purchase blocks which would work together with their existing collections of Lego blocks.

In 1983, Lego's only significant competitor in the United States was "Loc Blocs." The former director of the Loc Blocs product line testified that important reasons for Loc Blocs' lack of greater success were that Loc Blocs were not compatible with Lego blocks, and Loc Blocs were inferior in fit and appearance due to the different configuration and plastic employed.[9] Other brands of blocks were essentially unknown in the United States.[10]

Respondent Tyco has for over fifty years been a respected manufacturer and distributor of toys in the United States. In 1983, Tyco decided to design, manufacture and sell its own "Super Blocks" brand of blocks. Because Lego sets already dominated the market and most consumers were repeat buyers, and considering Loc Blocs' experience, Tyco determined that its Super Blocks had to be high quality and compatible with Lego sets if Tyco were to have any chance of capturing a substantial market share.[11] Subsequent market research confirmed that the most common reason for purchasing Super Blocks was indeed compatibility with Lego.[12] At trial, Lego did not dispute Tyco's right to make a block that works with Lego blocks.[13]

The Petition strongly but incorrectly asserts that Tyco adopted the configuration of the Lego 2x4 block into the Tyco Super Blocks 2x4 block solely to promote a "marketing scheme."[14] The

---

[9] R.AA.96-98, 113-14, 118, 120-22.

[10] Opinion, A.44.

[11] R.AA.21-22, 1595.

[12] R.A.1849-50, AA.108-09. (Lego blandly asserts, without support, that "the evidence was to the contrary." Petition at 19, fn.13. However, the Record speaks for itself.)

[13] Opinion, A.5.

[14] *i.e.* a "scheme" of comparative advertising, no longer at issue herein, in which Tyco specifically *distinguished* between Super Blocks and Lego blocks and urged consumers to buy Super Blocks *instead of* Lego blocks; it is difficult to reconcile this "scheme" with Lego's simultaneous (and unsuccessful) trademark claim alleging deliberate source confusion.

Petition claims that Tyco could instead have made a "good competing block" from one of numerous other configurations, none of which "appear to be inherently inferior to Lego."[15] Once again, Lego is merely re-arguing trial evidence. The District Court found no scheme. Instead, it determined from the "credible evidence" that in reality Tyco had considered and rejected various alternate configurations, because the tubes and studs system used in both the Lego 2x4 and the Tyco 2x4 was the "obvious engineering choice."[16] Since Lego's patent had expired, Tyco was free to use the system.[17]

Another error in the Petition is the repeated hypothesis that the District Court considered only the "utility" of the features of the Lego block, that is, whether the features were primarily designed to accomplish the function of the block. Supposedly, the Court did not consider what the "effect on competition" would be if Lego were granted a perpetual monopoly over the design.[18] Such a claim is untenable. After 24 days of trial, and examination of 14 witnesses, over 470 exhibits, 64 Tyco sets, 86 Lego sets, 25 competitors' sets and dozens of kinds of blocks, the Court specifically found that alternative configurations of equal function, appearance, durability and cost either could not be manufactured at all, or would at least be much more difficult and expensive for competitors to use than the Lego system.[19]

---

[15] Petition, at 3-6.

[16] Opinion, A.37.

[17] Lego's bold assertion (Petition, at 3-4) that the shape of its "famous" 2x4 block has "become a trademark" is impermissable bootstrapping. Since, as the District Court determined, the configuration was entirely functional, it could not be a trademark. Assertions of trademark status are also refuted by the District Court's finding that the block had acquired only "some" secondary meaning. Opinion, A.46. Whatever limited significance this may have is further diluted by the Court's determination from Lego's own research (not conducted for litigation) that consumers don't distinguish between competing toy block products on the basis of shape. Opinion, A.38.

[18] *See, e.g.*, Petition at 6, 15.

[19] Opinion, A.37.

To deprive Tyco and other competitors indefinitely from access to the "obviously" superior interconnect system would, just as obviously, hinder competition dramatically.

In sum, neither the Opinion nor the Record support the factual contentions which Lego proffers as the foundation of its legal arguments. In reality, Lego is simply seeking to re-try issues of fact which have never been challenged as clearly erroneous. The Petition should be denied on these grounds alone.

THE PETITION SHOULD BE DENIED

Far from presenting important or novel questions for review, Lego reargues its evidence, ignores settled law, and fails to demonstrate any significant conflict among the circuits.

POINT I

THE DISTRICT COURT'S DETERMINATION THAT NO SATISFACTORY ALTERNATIVES EXIST IS DISPOSITIVE.

A. *The Lego Block Is Wholly Functional.*

The District Court commenced its examination of functionality by inquiring,

> Whether [the] particular features of [the] product or service is substantially related to its value as a product or service, i.e. if the feature is part of the "function" served, or whether the primary value of a particular feature is the identification of the provider.

citing *United States Golf Ass'n v. St. Andrews Systems, Inc.*, 749 F.2d 1028, 1033 (3d Cir. 1984), as quoted in *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 807 F.2d 1136, 1142 (3d Cir. 1986). Opinion, A.35. The District Court then held,

> Applying these principles to the evidence in this case, this Court concludes that the Lego block is wholly functional. The stud and tube system referred to previously not only accommodates the interlocking function as Lego claims, but it "contribute[s] to the effectiveness and performance of the blocks". This is also true of the shape of the block.

Opinion, A.35.

The Court also found that the block incorporated no arbitrary, decorative or non-utilitarian feature. The Court later noted that even Lego's principal witness, Mr. Moller, "did not deny that the Lego 2x4 block as a whole and in each of its parts is functional" within this definition, and that "rearrangement of elements is not possible" for a competitor because the present arrangement is "precisely dictated by (and controls) the block's function." Opinion A.36.

Such an initial inquiry is not inconsistent with other Circuits. *Sicilia di R. Biebow & Co. v. Cox*, 732 F.2d 417, 429 (5th Cir. 1984),[20] specifically states,

> The functionality standard that we embrace focuses on the utilitarian nature of a configuration or design. Such a feature will be functional, and not entitled to trademark or trade dress protection, if it is dictated by utilitarian characteristics or by the functions that the relevant product or trade dress is intended to serve.

In *W.T. Rogers Co. v. Keene*, 778 F.2d 334, 339 (7th Cir. 1985), the Seventh Circuit selects the shape of an airplane to illustrate something which is obviously functional, because the shape of an airplane is dictated by its purpose, even though there are

---

[20] Cited in the Petition at 13 as "perhaps the most closely-reasoned of all recent functionality cases."

endless shapes for airplanes and few if any shapes are common among all or even most airplanes.[21]

In *Stormy Clime Ltd. v. ProGroup, Inc.*, 809 F.2d 971, 977 (2d Cir. 1987), the Second Circuit made the compelling observation that functionality is a matter of degree, to be considered along a spectrum or "continuum":

> *On one end [of the continuum], unique arrangements of purely functional features constitute a functional design.* On the other end, distinctive and arbitrary arrangements of predominantly ornamental features that do not hinder potential competitors from entering the same market with differently dressed versions of the product are non-functional and hence eligible for trade dress protection. *In between, the case for protection weakens the more clearly the arrangement of allegedly distinctive features serves the purpose of the product (including maintenance of low cost),* especially where the competitor copying such features has taken some significant steps to differentiate its product. (Emphasis added).

In *Stormy Clime's* terminology, the District Court found the Lego block to be at the far end of the "continuum" where "unique arrangements of purely functional features constitute a functional design." Hence the District Court's comment that the Lego block presents no rival interests to be resolved. Opinion, A.35.

Several decisions have observed that the existence of an expired utility patent (like Lego's) which discloses the "utilitarian" advantage of the design is evidence of functionality. *See, e.g., In re Morton Norwich Products, Inc.*, 671 F.2d 1332, 1340-41 (C.C.P.A. 1982) and cases cited therein; *In re Bose Corp.*, 772 F.2d 866, 872 (Federal Cir. 1985).

---

[21] *W.T. Rogers Co.* is in fact cited with approval by the Third Circuit in *Standard Terry Mills, Inc. v. Shen Mfg. Co.*, 803 F.2d 778, 780-81 (3d Cir. 1986).

B. *There Are No Acceptable Alternative Configurations.*

Lego pretends that the District Court's inquiry ended with this inquiry into "utility." In reality, the Court went much farther. Having heard lengthy testimony by Lego's expert Mr. Moller, including a detailed review of his written report and inspection of the various blocks he demonstrated, the Court noted that the evidence Moller provided depended upon Moller's opinion that the alternatives he proposed "could eventually be adjusted to work as well as Lego." Opinion, A.36. The Court was unimpressed with Moller's credentials to render such opinions, especially as compared to Tyco's expert, Mr. Martin.

The Court then summarized the testimony and exhibits of Tyco's Martin, and concluded that the block configuration employed by Lego and Tyco was superior to the others. The Court said,

> Martin detailed the specific additional difficulties and costs as compared to the simple tubes and studs that would be encountered in trying to design blocks and tools, to manufacture competitively, and to produce blocks of equal function, appearance, durability and cost. In most cases, he testified credibly that the task was not possible; as to the rest, it would at the least be much more difficult and expensive than the present system. Furthermore, the credible evidence is that in 1983 Martin (and others at Tyco) did consider and reject various alternate configurations. *See, e.g.*, Tr. 3592-3316. The tubes and studs system was the obvious engineering choice. It provides a flexible spring (tube) against an inflexible stud, which is necessary to accommodate manufacturing tolerances and preserve the blocks' function. Also, unlike other designs, the circular tube is pushed inward by the studs into a cloverleaf, so that positioning errors are self-correcting in use, and the engaging surfaces are subject to minimum wear.

> Finally, simple round tubes and studs are the easiest shapes to manufacture (except for the "hollow" block which is unacceptable in function). Based upon the testimony, I find that such characteristics of round shapes are obvious to a competent engineer, and in 1983, it did not take Martin long to recognize them. Tr. 3599. Indeed, in 1958, Lego recognized the same principles in selecting the three-tube shape over other configurations. PX 64; Tr. 3248-49.

Opinion, A.37.

C. *The Court's Determination Was Not Founded Upon a Standard of Compatibility with Lego Blocks.*

Lego's Petition labors under the misapprehension that the District Court rejected Lego's proferred alternatives upon the standard of whether they would work with Lego. Petition at 17-18. Although additional evidence was presented concerning compatibility with Lego products, this was not the basis of the Court's determination. Even a cursory review of the relevant Opinion language cited above will reveal that the Court did not once mention compatibility with Lego as a factor.

Most of Martin's expert evidence, upon which the Court relied, related to the adequacy of the alternative systems in isolation, without reference to their compatibility with Lego.[22] Martin simply compared the quality, durability, manufacturability, cost and other features of the alternate systems to the system used by Lego and Tyco, that is, whether the cost, manufacturability, etc. would be better or worse. Such an analysis is the normal procedure in this type of litigation.

---

[22] The alternatives discussed by Moller and Martin (*e.g.* R.A.1393-1463) included almost all the variations displayed in the "45 competitors' blocks" referred to in the Petition at 5, 6, 17-18.

In addition, the Court was itself able to examine and test numerous blocks of different configurations, observing many of the problems inherent in their designs.

D. *There Are an Insufficient Number of Acceptable Alternatives.*

Lego concedes that under *any* legal formulation, there must be a sufficiently large number of acceptable alternative configurations available to accommodate the needs of present and future competitors:

> "As Lego admits, the existence of only a few alternates is insufficient for trademark purposes, because other competitors could still be restricted from entering the marketplace."

Opinion, A.37-38.

This is but a natural concomitant of the strong public policy favoring competition, to have consumers benefit from the availability of alternate sources of similar products. *See, e.g., Keene Corp. v. Paraflex Industries, Inc.*, 653 F.2d 822, 827 (3d Cir. 1981), where the availability to competitors of twelve to fifteen alternative designs was held to be an insufficient basis for a determination of nonfunctionality. *See also In re Bose Corp., supra*, 772 F.2d at 873.

In this connection, the District Court found that Lego had failed to establish as a fact the availability of the sufficiently numerous equally acceptable alternatives necessary to support Lego's claim. Opinion, A.37-38.

The Court illustrated one dilemma created by the limited number of configurations (even assuming that some were acceptable) by pointing out that if Tyco used Lego's proposed configuration No. 9, which is similar to the configuration used by Loc Blocs, Tyco would then be subject to the very same legal claim by Loc Blocs that Lego is now pursuing in this action. Opinion, A.38.

E. *Effect on Competition May Be Determined by Alternative Configurations.*

Lego asserts that the District Court should have considered the "effect on competition" of recognizing the alleged configuration trademark. The District Court thoroughly investigated alternative configurations. Lego never suggests *how else* the Court should have determined effect on competition. Indeed, Lego offered no evidence whatsoever at trial relevant to this issue, other than submitting evidence of the other designs and blocks which the District Court concluded were not as good as the Lego design.

In any event, an investigation of the alternatives available to competitors is the usual method for evaluating effect on competition in all Circuits, including the Third. For example, in *Brandir Int'l, Inc. v. Cascade Pacific Lumber Co., supra*, the Second Circuit noted,

> But the fact that a design feature performs a function does not make it essential to the performance of that function; *it is instead the absence of alternative constructions performing the same function that renders the feature functional.* Thus, the true test of functionality is not whether the feature in question performs a function, but whether the feature "is dictated by the functions to be performed,". . . *as evidenced by available alternative constructions.*

834 F.2d at 1148 (emphasis added).

In re Morton Norwich Products, Inc., 671 F.2d 1332, 1341 (C.C.P.A. 1982) the Court stated,

> Since the effect upon competition "is really the crux of the matter," it is, of course, significant that there are other alternatives available.

In re Bose, supra, 772 F.2d at 872, in applying the principles of *Morton Norwich*, ruled that where, as here,

> If the feature asserted to give a product distinctiveness is the best, or at least one, of a few superior designs for its *de facto* purpose, *it follows that competition is hindered.* (Emphasis added.)

In re Bose contrasted the relatively few available designs for audio speaker cabinets to the almost "infinite variety" of alternative continue shapes available in *Morton Norwich*, 772 F.2d at 873.[23]

The same proposition appears in *Sicilia Di R. Biebow & Co. v. Cox*, *supra*, where the Fifth Circuit stated that the "ultimate inquiry" concerning functionality is hindering competition, and that a design is not legally functional "unless the design is only one of a limited number of equally efficient options and free competition would be unduly hindered by according that design trademark protection." 732 F.2d at 429. A finding of nonfunctionality would mean that a "wide array of choices remain available to prospective competitors." 732 F.2d at 430.

The Third Circuit is not different. *See, e.g., Ideal Toy Corp. v. Plawner Toy Mfg. Corp.*, 685 F.2d 78, 81 (3rd Cir. 1982); *Keene Corp. v. Paraflex Industries, Inc.*, *supra*, 653 F.2d at 827; *Time Mechanisms, Inc. v. Qonaar Corp.*, 442 F. Supp. 905, 913 (D.N.J. 1976).

In the instant case, the District Court determined after trial that the shape of the Lego block is wholly functional. The District Court's further, unequivocal findings that that there are *no* acceptable alternatives available to competitors and, in any event, that there are an insufficient number of acceptable alternatives, should be dispositive of this Petition. All these determinations of the District Court are findings of fact[24] and, since they are not alleged by Lego to be "clearly erroneous," they are now final.

---

[23] Moreover, such a determination of functionality does not depend on any investigation into the distinctiveness of the design, that is, secondary meaning. 772 F.2d at 867.

[24] *Standard Terry Mills, Inc. v. Shen Mfg. Co.*, 803 F.2d 778, 781 (3d Cir. 1986); *CIBA-GEIGY Corp. v. Bolar Pharmaceutical Co.*, 747 F.2d 844, 850 (3d Cir. 1984), *cert. denied*, 471 U.S. 1137 (1985); *In re Morton Norwich Products, Inc.*, *supra*, 671 F.2d at 1340; Fed. R. Civ. Pro. 52(b).

Under any legal theory proferred by Lego, the absence of acceptable alternatives for Tyco and other competitors to use establishes the adverse "effect on competition" which Lego admits precludes relief.

POINT II

LEGO'S LEGAL THEORIES ARE UNTENABLE

A. *The Circuits Are Not in Substantial Conflict Over the Issues Raised by the Record Herein.*

Where, as here, the shape is dictated entirely by the product's purpose, and where there are few or no acceptable alternatives available to competitors for reasons of performance, manufacture, cost or otherwise, there is no fundamental disagreement among the Circuit Courts on the functionality issue. Indeed, the determination of functionality in such circumstances is obvious in every Circuit. Point I, *supra*.

All the Circuits recognize the competing policies of the Constitution,[25] the patent laws,[26] and free competition on one hand, and Lanham Act protection of configuration trademarks on the other.[27] In appropriate circumstances, the Circuits all balance those policies by examining the effect on competition, primarily through an investigation of what alternatives are available to competitors.

Consequently, the Lego Petition and the Record herein do not appear to present an appropriate opportunity to unify or alter public policy in this area. At best, this Court is being invited by Lego to devise some rigid balancing formula applicable to all similar cases. It is submitted that the disputes which

---

[25] U.S. Const. Art. 1 §8 Cl. 8.

[26] 35 U.S.C. §§154, 173.

[27] 15 U.S.C. §1125(a); *see, e.g.*, discussion of competing policies in *Stormy Clime Ltd. v. ProGroup, Inc.*, *supra*, 809 F.2d at 978.

raise conflicts between the patent and Lanham acts are so varied, and so fact-specific to the products involved, that Lego's attempt to create a universal formula would simply inject confusion.

B. *Lego's "Advancement" Theory Is Impractical.*

Lego would afford trademark protection to all product configurations which can demonstrate secondary meaning, excepting "only when the feature copied embodies some advancement that all competitors need." Petition at 18-19.

This theory is based upon Lego's misunderstanding of the "superiority" terminology employed in some decisions. In any Circuit, a finding of functionality does not require that the design be the best of all possible designs. Rather, it requires only that the features be efficient, cost effective or otherwise desirable.[28]

As a matter of policy, it is unreasonable to impose upon potential competitors, before they ever enter the market, the burden proposed by Lego of evaluating correctly whether the product or service they wish to emulate is "superior" to all conceivable products or services of that type in Lego's sense of the word. Such an analysis is just too difficult, the risk of prosecution by the first comer is too unpredictable, and the financial penalties for a mistaken judgment are too severe. The effect of such a standard would be to discourage rather than promote fair competition.

C. *This Court Should Be Especially Cautious in Reviewing this Determination of the Lower Courts.*

The patent which Lego received on the interlocking system used in its 2x4 block enabled Lego to monopolize the system for nearly seventeen years. The patent subsumes every feature of the block.

---

[28] In *In re Bose*, *supra*, the five-sided speaker was not found to be the best of all possible speaker designs, but only "a" superior design, 772 F.2d at 872-73; in *Standard Terry Mills*, *supra*, the "huckaback" weave and windowpane pattern were not found to produce the country's best towel, but just "a" superior design. 803 F.2d at 781.

The expiration of the patent suggests that this Court should be especially cautious in assessing the District Court's determination of functionality, so as not to undermine the objectives of the patent laws and permit Lego to obtain a broader, perpetual monopoly over an invention that should now be in the public domain. An excellent summary of this principle appears in *Stormy Clime Ltd. v. ProGroup, Inc.*, *supra*, 809 F.2d at 977-78. There, the Second Circuit reviewed the overriding Constitutional policies of encouraging invention and fostering competition, articulated in *Sears, Roebuck & Co., v. Stiffel Co.*, 376 U.S. 225 (1964), and stated,

> . . . the reason for refusing to protect functional elements against copying is not that they "cannot or do not indicate source to the purchasing public but that there is an overriding public policy of preventing their monopolization, of preserving the public right to copy."

citing *In re Deister Concentrator Co., Inc.*, 289 F.2d 496, 504 (C.C.P.A. 1961).

> Since trademark protection extends for an unlimited period, expansive trade dress protection for the design of products would prevent some functional products from enriching the public domain.
>
> This threat is particularly great when, as in the instant case, a first manufacturer seeks broad trade dress protection for a product on the ground that its arrangement of its predominantly functional features is distinctive.

Stormy Clime, 809 F.2d at 978.

It is submitted that Lego's Petition seeks to exacerbate that threat. Lego's theory would permit a patentee to exploit his seventeen year monopoly to develop secondary meaning in his product and, thereafter, to claim an indefinite trademark monopoly in the invention. The only exception would be the unlikely patentee whose product after seventeen years is still clearly

"superior" to all other products which perform similar functions. In practice, the fundamental purposes of the patent laws would be subverted.

POINT III

LEGO'S FAILURE TO ADDUCE SUFFICIENT EVIDENCE OF CONFUSION IS AN INDEPENDENT GROUND TO DENY THE RELIEF SOUGHT IN THE PETITION.

A substantial portion of the District Court's Opinion was devoted to analysis of the evidence of alleged secondary meaning and likelihood of confusion caused by the 2x4 block. Opinion, A.38-46. It was the conclusion of the District Court that the block had acquired some secondary meaning but that there was insufficient evidence of confusion. Opinion, A.46.

On Appeal to the Third Circuit, Lego contended that the District Court had erred in its investigation of likelihood of confusion, in spite of the fact that the correct standards had been articulated by the District Court in its discussion of *Scott Paper Co. v. Scott's Liquid Gold*. 589 F.2d 225 (3rd Cir. 1978); *see* Opinion, A.38-39. The Third Circuit affirmed without opinion the judgment of the District Court.

The confusion issue has not been raised in the Petition. Therefore, the judicial determination that the Record presented insufficient evidence of confusion is now final.

As a result, even if this Court were to issue a Writ of Certiorari and then to rule on the configuration issues in exactly the manner Lego requests, there still is no sufficient basis to reverse the District Court's refusal to enjoin Tyco from using the Lego configuration; the third prerequisite of all such infringement claims, likelihood of confusion, has been decided against Lego.

CONCLUSION

Lego's Petition for Certiorari should be denied.

Respectfully submitted,

J. LAWRENCE BLADES,
Counsel of Record
MYERSON & KUHN

Attorneys for Respondent

Supreme Court, U.S.
FILED
NOV 1 1988
JOSEPH F. SPANIOL, JR.
CLERK

No. 88-503

IN THE

Supreme Court of the United States

OCTOBER TERM, 1988

LEGO SYSTEMS, INC. and INTERLEGO, A.G.,

Petitioners,

vs.

TYCO INDUSTRIES, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

PETITIONERS' REPLY BRIEF IN SUPPORT OF PETITION FOR CERTIORARI

ALLAN ZELNICK
Counsel of Record for Petitioners
633 Third Avenue
New York, New York 10017-6703
(212) 953-9090

RICHARD Z. LEHV
STEPHEN F. MOHR
WEISS DAWID FROSS ZELNICK
& LEHRMAN, P.C.
633 Third Avenue
New York, New York 10017-6703
(212) 953-9090

Counsel for Petitioners

TABLE OF CONTENTS

		Page
TABLE OF AUTHORITIES		iii
INTRODUCTION		1
POINT I -	THE FINDINGS OF FACT ON ALTERNATIVE CONFIGURATIONS, ON WHICH RESPONDENT RESTS, REFLECT THE ADOPTION OF A LEGALLY INCORRECT DEFINITION OF COMPETITION BY THE COURTS BELOW	2
POINT II -	TYCO'S BRIEF DEMONSTRATES THAT THE CIRCUITS ARE NOT APPLYING A UNIFORM RULE OF FEDERAL LAW OF FUNCTIONALITY	5
POINT III -	THE DISTRICT COURT'S HOLDING ON CONFUSION NEED NOT BE REVIEWED	7

TABLE OF AUTHORITIES

	Page
Cases	
American Greetings Corp. v. Dan-Dee Imports, Inc., 807 F.2d 1136 (3d Cir. 1986)	5-6, 7
American Home Products Corp. v. Barr Laboratories, Inc., 834 F.2d 368 (3d Cir. 1987)	7
Brandir Int'l, Inc. v. Cascade Pacific Lumber Co., 834 F.2d 1142 (2d Cir. 1987)	6
Ideal Toy Corp. v. Plawner Toy Mfg. Corp., 685 F.2d 78 (3d Cir. 1982)	6
Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844 (1982)	6
Keene Corp. v. Paraflex Industries, Inc., 653 F.2d 822 (3d Cir. 1981)	6
Stormy Clime Ltd. v. Progroup, Inc., 809 F.2d 971 (2d Cir. 1987)	6
Time Mechanisms, Inc. v. Qonaar Corp., 422 F.Supp. 905 (D.N.J. 1976)	6
United States Golf Association v. St. Andrews Systems, 749 F.2d 1028 (3d Cir. 1984)	5, 7
Vitarroz Corp. v. Borden, Inc., 644 F.2d 960 (2d Cir. 1981)	5, 8
Yarmuth-Dion, Inc. v. D'ion Furs, Inc., 835 F.2d 990 (2d Cir. 1987)	5, 8

No. 88-503

IN THE

Supreme Court of the United States

OCTOBER TERM, 1988

LEGO SYSTEMS, INC. and INTERLEGO, A.G.,

Petitioners,

vs.

TYCO INDUSTRIES, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

PETITIONERS' REPLY BRIEF IN SUPPORT OF PETITION FOR CERTIORARI

INTRODUCTION

Respondent ("Tyco") in effect argues that this Court ought not review this case because Petitioners ("Lego") would have lost even if the correct legal standards had been applied. Respondent's analysis of the factual findings below, on which its arguments rest, is incorrect and, therefore, Tyco presents no valid reason for this Court to defer the urgently-needed exposition of uniform legal principles in this ever more frequently encountered area of federal law.

POINT I

THE FINDINGS OF FACT ON ALTERNATIVE CONFIGURATIONS, ON WHICH RESPONDENT RESTS, REFLECT THE ADOPTION OF A LEGALLY INCORRECT DEFINITION OF COMPETITION BY THE COURTS BELOW

Respondent argues that this Court should not review the decision below because the District Court found that the Lego configuration was superior in cost or quality to alternatives presented and was "the obvious engineering choice." Tyco asserts that these findings were "global" in nature, *i.e.*, the District Court found as a fact that the Lego configuration is superior to that of *all* other blocks – whether or not they work with Lego blocks – and that the Lego stud and tube system is superior to *all* other means of connecting such blocks. No such global finding was made.

The District Court's statements on the superiority of the Lego studs and tubes related *only* to those blocks Lego presented as blocks that could connect to Lego blocks and still look different, not to alternatives available to all block makers generally. This will be fully demonstrated in the briefs on the merits. In fact, however, Respondent never raised the issue of overall superiority and did not try it.

At pages 24 and 90 of the Pre-trial Order (Docket No. 26, not in Appendix) Tyco asserted only two grounds to support its position that the Lego block shape was functional: that all its features are useful or serve a purpose in a block (reflecting the Third Circuit, "weighing the utility" test, adopted and applied below) and that there are few, if any, alternative configurations that *would work with the Lego block* available to competitors (the incorrect intra-brand competition test). Tyco never even raised the issue of overall superiority.

Moreover, Tyco never tried that issue. At trial, Tyco's counsel *conceded* that blocks that would connect to each other but would not connect to Lego could be made, and admitted that such

blocks were not part of its case. The following statement of Respondent's counsel appears at pages 2904-05 of the trial transcript.

> So with that combination of circumstances, Tyco maintains it was necessary to build a block *that works with LEGO* if it wasn't going to be shut out of the market that LEGO had developed in the United States with a patent and with 20 years or more of intense promotion, advertising and sales, enormous.
>
> • • • •
>
> Now, Mr. Zelnick [Lego's counsel], until he started presenting evidence today, I understood to be saying there's other ways to make a block that worked with LEGO that would constitute alternate configurations under his theory of the law, okay? I didn't ever understand it was part of the case that it's possible to make systems that are totally independent of LEGO. I think everybody—*that's conceded*. If that's what Mr. Zelnick is trying to pursue, *that's conceded*. (emphasis added).

Until its brief in the Court of Appeals, Tyco never once asserted that the Lego configuration was superior to *all*, or even *any* other blocks that do not connect to Lego. In fact, Tyco's counsel objected on the grounds of relevance (Tr. at 2899) to Lego's proffer of evidence of the drawbacks in the Lego configuration and evidence of dozens of other ways to make blocks that connect to each other by different means, and that achieve an equally good or better product.

Mr. Martin, Tyco's expert, also repeatedly made clear that Tyco did not even ever consider alternatives that did not connect to Lego blocks. The following is an example of such testimony:

> Q. Mr. Martin, you heard Mr. Moller testify that there were different systems, as he called them, which could be used to achieve the objective of working with itself

and *also working with LEGO as well as Tyco does now.*

A. Yes.

Q. Have you formed any opinions or conclusions regarding the proposed systems as set forth in the Moller Report [Ex. D-1] and illustrated by *some of* the blocks here?

A. Yes, I have, but could I explain it in my own way?

Q. Please.

A. Your Honor, there are two aspects that we must consider in designing a block that will work with itself and work with LEGO. The main exercise here is not making a block that simply fits well with itself and is a quality block. The main difficulty here is making it work with LEGO.

To make it work with LEGO...

* * *

So you're trying to – the trick here, I mean, *the LEGO system requires* the blocks to be molded to what I call exacting tolerances, and those tolerances, you must have strict control over the molding....

Tr. at 3376, 3378. (Emphasis added).

All of Mr. Martin's testimony related to those difficulties, and none related to problems in making other blocks *per se*.

There was thus no evidence on which the Court could have found that the Lego system was superior to *all* other systems. Rather, what the District Court held was that of all of the systems that connect to Lego the configuration that connects best with Lego is the Lego shape itself. The District Court's

reference to the round tubes as being "the obvious engineering choice" related to the fact that Lego already had studs on the top of its block in 1958, when it added the tubes in the underside of the blocks. Whether or not the District Court was correct in holding that round tubes were the obvious choice in the context of *that pre-1958 block*, the District Court never found that round tubes would be an obvious engineering choice were one designing a block from scratch, without regard to compatibility with Lego.[1]

A District Court decision is reviewable not only if the factual findings are clearly erroneous, but also if the court failed to apply the correct legal standards. *Yarmuth-Dion, Inc. v. D'ion Furs, Inc.*, 835 F.2d 990, 994 (2d Cir. 1987); *Vitarroz Corp. v. Borden, Inc.*, 644 F.2d 960, 968 (2d Cir. 1981). In focusing only on blocks that connect to Lego blocks, the District Court applied the wrong legal standard. It should have looked instead at whether the Lego system was superior to all or substantially all other systems and, if so, whether use of the Lego system required copying the appearance of the Lego block. It manifestly made no such findings. Accordingly, its decision and that of the Third Circuit, which adopted it wholesale, are subject to review.

POINT II

TYCO'S BRIEF DEMONSTRATES THAT THE CIRCUITS ARE NOT APPLYING A UNIFORM RULE OF FEDERAL LAW OF FUNCTIONALITY

As Respondent correctly points out (Brief, p. 6) the Court below "commenced" its examination of the law of functionality by adopting the current Third Circuit "utility balancing test", citing *United States Golf Ass'n. v. St. Andrews Systems*, 749 F.2d 1028, 1033 (3d Cir. 1984) and *American Greetings Corp. v.*

---

[1] Even if it were to be assumed that the finding related to studs and tubes generally, critically the Court never found that the size, location and height of the Lego studs were superior. The issue here is the need to reproduce the appearance of Lego's block, not the need to use the principles underlying Lego's mechanical system.

Dan-Dee Imports, Inc., 807 F.2d 1136, 1142 (3d Cir. 1986). The District Court then held the Lego brick to be wholly functional "[a]pplying *these* principles to the evidence in this case" (A-35) (Emphasis added).

Tyco's cavils to the contrary notwithstanding, therefore, it is clear beyond doubt that the Courts below applied a test of functionality which focuses *not* on the effect that protecting the configuration trademark would have on competitors, but rather upon the degree of usefulness of the shape compared to its origin-indicating value. Tyco does not assert, as it cannot, that the Court applied the test of functionality this Court enunciated in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 850 n.10 (1982).[2]

The need for clarification of the rule to be applied is, however, well illustrated by Respondent's citation, at p. 8, to *Stormy Clime Ltd. v. Progroup, Inc.*, 809 F.2d 971, 977 (2d Cir. 1987), in which one panel of the Second Circuit held that "unique arrangements of purely functional [utilitarian] features constitute a functional design." Yet in *Brandir International, Inc. v. Cascade Pacific Lumber Co.*, 834 F.2d 1142, 1148 (2d Cir. 1987), a different panel of the same Court in the same year, reflecting the same conflicts as exist among the Circuits, held a bicycle rack *not* functional despite a finding that "the design feature of the Ribbon Racks is clearly dictated by the function to be performed, namely, holding up bicycles," i.e., the design was "purely functional" in the same utilitarian sense.

Tyco's citation, at p. 13 of *Ideal Toy Corp. v. Plawner Toy Mfg. Corp.*, 685 F.2d 78, 81 (3d Cir. 1982); *Keene Corp. v. Paraflex Industries, Inc.*, 653 F.2d 822, 827 (3d Cir. 1981) and *Time Mechanisms, Inc. v. Qonaar Corp.*, 422 F. Supp. 905, 913 (D.N.J. 1976), for the assertion that the Third Circuit applies an alternative configuration standard, like other circuits, is

---

[2] Indeed, at p. 15 of its brief Respondent postulates a wholly new test, unsupported by either citation or reason, to wit, whether the features are "efficient, cost effective or otherwise desirable." No Court has enunciated such a test, which totally ignores *Inwood* and the underlying reasons for the rule, pointed out in the petition.

disingenuous. Each of those cases predated *U.S.G.A.*, *supra*, and *American Greetings*, *supra*, which set out the value balancing test applied below in this case.

POINT III

THE DISTRICT COURT'S HOLDING ON CONFUSION NEED NOT BE REVIEWED

In its final point, Respondent asserts, "[t]he confusion issue has not been raised in the Petition. Therefore, the judicial determination that the Record presented insufficient evidence of confusion is now final." Brief, p. 17.

Respondent then neatly switches from speaking of a finding of "confusion" to a finding of "likelihood of confusion." There is no dispute that the correct legal test is *likelihood* of confusion. The difficulty with Respondent's argument, however, is that the District Court did *not* make *any* finding on *likelihood* of confusion. In its brief in the Third Circuit, Respondent characterized this failure of the District Court as a "slip of the pen." Now respondent has transmogrified it into a finding of no likelihood of confusion. No such finding was ever made, apparently because either the District Court felt its ruling on functionality made it unnecessary to reach that issue, or because it believed that Petitioners had to prove actual confusion.[3]

---

[3] The entire holding of the Court below on confusion is that the Lipstein survey submitted by Lego was "not conclusive evidence of confusion between Tyco and Lego blocks in the marketplace," and that there was therefore "insufficient evidence of confusion." Lego, however, was not required to demonstrate by "conclusive" evidence that confusion between the Tyco and Lego products was occurring. Rather, like any party in civil litigation, Lego was required only to prove a likelihood of confusion by a preponderance of the evidence. *American Home Products Corp. v. Barr Laboratories, Inc.*, 834 F.2d 368, 371 (3d Cir. 1987).

Moreover, Lego was not required to demonstrate that there was "confusion" between Tyco and Lego blocks "in the marketplace." Rather, Lego was required to demonstrate only that there was a likelihood of such confusion, either in the "marketplace" or post-sale.

The clearly erroneous rule does not apply to conclusions of law or to findings of fact made on an incorrect understanding of the law. The clearly erroneous standard does not deprive the federal appellate courts of the duty to reverse erroneous results where the legal basis of the District Court's factual finding is in error. *Yarmuth-Dion, Inc. v. D'ion Furs, Inc.*, 835 F.2d 990, 994 (2d Cir. 1987), *Vitarroz Corp. v. Borden, Inc.*, 644 F.2d 960, 968 (2d Cir. 1981) ("Our function is not to consider the issues *de novo*, but to be sure the District Court applied the correct legal standard and correct criteria to findings that are not clearly erroneous.")

Since the District Court failed to make any finding whatsoever on *likelihood* of confusion, the correct legal test, there is no reason to raise that issue in this Court. Manifestly, because the courts below were in error on the law of functionality, the case should be remanded with instructions to make appropriate findings of fact on all issues.

Respectfully Submitted,

ALLAN ZELNICK*
RICHARD Z. LEHV
STEPHEN F. MOHR

WEISS DAWID FROSS ZELNICK
& LEHRMAN, P.C.
633 Third Avenue
New York, New York 10017-2773
(212) 953-9090

**Counsel of Record*

Dated: October 31, 1988